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ERRATA

Page 166, line 19, tan $\angle$TOM and *not* tan $\angle$TIM.

Full stop (.) after tan $\angle$TOM.

Page 170, Fig. 3, the horizontal line from T′ meets the OY axis at A′ and *not* at A as printed.

Page 171, Footnote 6, as corrected—will stand thus:

$OM' \times M'T' = OM \times MT$. Now, $OM' = OM + \frac{1}{6} OM = \frac{7}{6} OM$.

$\therefore \quad \frac{7}{6} OM \times M'T' = OM \times MT$; or $M'T' = \frac{6}{7} MT$.

Page 174, Fig. 7, the horizontal line from T meets the OE′ (or Oe′) curve at T′ nd *not* at T as printed.

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RECENT DEVELOPMENTS IN MONETARY PRACTICE

BY

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Since the World Slump of 1929 monetary practices in different countries were at variance with the traditional methods and prescriptions of the pre-war and the post-war periods. These developments in monetary practice may be grouped under the following heads. The first refers to the suspension of the gold standard and the resulting depreciation of the currency standards of the different countries. The second consists of the method of Devaluation as a process of stabilisation and the Sterling and Dollar Exchange. Grouping of the countries into blocs or areas as the Sterling bloc, Dollar bloc and Gold bloc comprises the third. Gold production, distribution and the methods of sterilization cover the fourth group. The fifth group relates to the movement of short-term funds. Recent methods of exchange restrictions and control make up the sixth group. The last group refers to the changes effected in increasing the control over banks, both Central and Commercial.

(I) Suspension of the Gold Standard.

Suspension of the gold standard became a common practice among the different countries of the world, when the monetary authority of the country was unable to meet the abnormal demands for gold at the statutory price. As a consequence most of the countries abandoned the gold standard. Their names together with the year of suspension obligations to sell gold.

Since 1929, nearly 36 countries suspended their gold standard. Their names together with the year of suspension are given below:—

Countries	Year of Suspension	Countries	Year of Suspension
Argentine ...	1929	Palestine ..	1931
Australia ...	„	Portugal ...	„
Uruguay ...	„	Salvadar ...	„
Bolivia	1931	Sweden ...	„
Canada... ...	„	Chile	1932
Colombo ...	„	Ecuador ...	„
Denmark ...	„	Greece	„
Egypt	„	Peru	,
Finland ...	„	Siam	„
India	„	Union of South Africa	„
Ireland	„	Austria ...	1933
United Kingdom ...	„	Cuba ..	„
Japan ...	„	Estonia ...	„
Malaya (British) ...	„	The U.S A. ...	„
Mexico	„	Belgium ...	1935
Newzealand ...	„	Latvia ...	1936
Nicaragua ...	„	Netherlands ...	„
Norway ...	„	Netherlands Indes	„

Currency depreciation.

Inflation of currency will result in currency depreciation and bring about a rise in prices. The suspension of the

gold standard in most countries also resulted in depreciation of their currencies and much undervalued the exchanges. in 1938 together with the year of their gold parity are
in 1938 together with the year of their gold parity are
given below:—

Countries	Year of gold parity	Gold value of Currency in 1938
China	1929	41·9
Spain	"	24·5
Iran	"	41·2
Uruguay ...	"	37·7
Argentina ...	"	46·5
Brazil	"	43·3
Bolivia ...	1930	9·9
Australia ...	"	48·5
Newzealand ...	"	48·9
Peru	"	36·3
Venezuela ...	"	95·7
Mexico ...	1931	32.9
United Kingdom	"	60·9
India	"	61·3
British Malaya ...	"	61·1
Denmark ...	"	49·4
Norway ...	"	55·6
Sweden ...	"	57·0
Canada ...	"	59·1
Austria ...	"	79·5
Salvador ...	"	47·3
Finland ...	"	52·0
Portugal ..	"	60·5
Japan ...	"	34·4
Costa Rica ...	"	42·0

Countries		Year of gold parity	Gold value of Currency in 1938
Greece	...	1932	41·8
Chile ...	...	„	25·1
Ecuador	..	„	21·3
Siam	...	„	61·4
Yugoslavia	...	„	78·5
U. of S. Africa	...	„	60·3
Colombia	...	1933	33·4
United States	...	„	59·1
Estonia	...	„	61·4
Czechoslovakia	...	1934	70·1
Italy	...	„	59 0
Belgium	...	1935	72·1
Luxemberg	...	„	90·1
Danzig	...	„	57·6
Roumania	...	„	72·8
France	...	1936	49·5
Netherlands	...	„	82·2
Switzerland	...	„	71·1

Before the suspension of the gold standard by Great Britain, sterling was overvalued in relation to other gold currencies. But as soon as gold standard was suspended sterling began to depreciate and very soon became undervalued in relation to the gold bloc countries and the effect was to improve her international balance of payments. Currency depreciation of this kind is to be distinguished from the exchange depreciation resorted to by a country with a view to give a bounty on its exports and discourage imports, though for a time. Newzealand and Japan (besides many others) in recent years resorted to exchange depreciation where the currencies were placed under control and their exchange value deliberately forced down.

(II) Devaluation as a process of stabilisation.

The countries wishing to stabilise their currencies with a view to secure stability of internal prices and of external exchanges, were faced with two alternatives. They could either resort to a policy of *deflation* with a view to raise the value of the monetary unit to its pre-war inflationary gold value or to a higher level than the existing one or, adopt the existing depreciated value by devaluing, *i.e.*, giving the monetary unit a lower statutory or legal value by reducing its gold content.

Deflation.—Deflation was advocated on the ground of financial honesty and financial prestige, but this view overlooked the fact that deflation would cause as much injustice as it righted, if in fact, it did not cause more. There was besides, the fact that deflation, involving as it did a period of falling prices would have extremely harmful results on industry and trade.

Although many countries soon realised that immediate deflation to pre-war values, was impossible, yet in some cases, *e.g.*, in France, and in Italy efforts were made by deflation to restore the former value of their monetary units, but without success. Czechoslovakia made the experiment with success, but the policy cost her an industrial crisis and serious unemployment. England followed a deflationary programme and restored the Gold Standard in 1925. But when the other countries did not follow her example, and the restoration resulted in heavy withdrawals of gold depleting her reserves, England had to suspend the gold standard on 21st September, 1931.

Devaluation.—Devaluation implies the stabilisation of the monetary unit as nearly as possible at its existing value as indicated by the prevailing gold exchanges. This method of stabilising currencies at a fixed discount with reference to a gold monetary unit of a gold standard country was the one generally recommended by the currency experts and principally adopted by European countries. Stabilisation by devaluation proceeds by two stages, *viz.*, a *de facto* stabilisation followed by a *de jure* one, when legislative sanction is given to a decrease in the statutory gold equivalent of the monetary unit.

The rate adopted by the country concerned to devalue its currency should be the existing purchasing power parity between its currency and a leading gold standard country. If the choice made by the government results in the undervaluation of the currency by the exchanges, the country will have to face a *stabilisation crisis* such as was experienced in the post-war period in Belgium and Germany, or when it results in the overvaluation of the currency by the exchanges, the country will have to face an *adjustment crisis*. The difference between the two policies is that one produces a boom before the crisis, whereas the other causes immediate depression.

When the dollar became overvalued by the exchanges and the export trade of the country suffered, President Roosevelt empowered by the Congress, reduced the gold value of the dollar in 1934 by nearly half of its old value. To maintain the external value of the dollar at the new value, a Dollar Stabilisation Fund was built up with resources amounting to $2000,000,000.

When the dollar was devalued in January 1934, the remaining gold currencies (of France, Belgium, Holland, and Switzerland) automatically became overvalued in relation to the dollar, as well as in relation to sterling and to the many other currencies that had been devalued or had depreciated in sympathy with sterling, and thus subjected themselves to all the evil consequences of such overvaluation.

With a view to remove the overvaluation of their currencies, the gold bloc countries resorted to deflation. But this caused such wide-spread hardship to their people that political interests prevented the policy from being carried sufficiently far.

Finally in 1935, Belgium, and in 1936 France, Holland, and Switzerland gave up the struggle and devalued their currencies on much the same lines as had been followed by the United States of America. The profits from revaluation of the gold reserves were utilised by them in creating Exchange Funds. Other countries too, abandoned gold and either devalued their currencies or linked them to sterling. Thus the gold bloc collapsed and the influence of sterling was widened.

It is interesting to note that the devaluation of the Franc was secured by an act of international co-operation in the form of a Three-Power Agreement between France, Great Britain and the United States of America with which subsequently Holland and Switzerland also signified their willingness to co-operate.

Sterling and Dollar Exchange.—The relationship between sterling and the dollar was remarkably stable in 1937, the rate of exchange varying between \$4·873 and \$5·03. But this apparent stability was nevertheless accompanied by considerable disturbances, which showed themselves mainly on the gold market in London.

Parity price of gold.—Apart from the old statutory buying price of the Bank of England, the authorities maintained no fixed price for gold in the United Kingdom. The London gold market is a free market, where quotations fluctuate from day to day under the influence of demand and supply. There is, however, one important standard to which the price of gold in London has to adjust itself, *viz.*, the buying price of the U.S.A., Treasury (\$35 per fine oz.). The American buying price expressed in terms of sterling at the current rate of exchange will give the parity price for gold in London. But owing to the expenses incurred in shipment a practice has grown up whereby a *shipping parity* is established, representing the sterling equivalent of the net proceeds obtained in New York per ounce of gold shipped from London.

Shipping parity $\dfrac{\textit{35 per ounce, less expenses}}{\textit{current rate of exchange}}$.—This parity, of course, is by no means fixed, but varies with the dollar rate in London. If the actual market price of gold in London falls below the shipping parity a discount appears making shipments to New York profitable. If on the other hand, the price is above the shipping parity, gold is said to be at a premium, which tends to induce shipments from New York to London. It will be observed that the difference between the actual price and the shipping parity is determined by two factors: the course of the dollar rate and the movement of the market price itself.

As the dollar price of gold is fixed, while the sterling price is free, fluctuations in the dollar rate tend to bring about fluctuations in the opposite direction in the sterling price of gold in London, fell to a discount in relation to the arbitrageurs and their operations tend to bring the London Market price into line with the parity price which rises or falls with every rise or fall in the dollar-sterling exchange rate.

Due to rumours of an impending reduction in the price of gold led to a gold scare in the early part of 1937 and the price of gold in London, fell to a discount in relation to the "shipping parity." This discount persisted for nearly three months, disappearing only in the early part of July 1937. Under normal circumstances the discount would have been eliminated by shipment of gold to New York. On this occasion, however, the fear that a reduction in the dollar price of gold might take place during the time of transport kept private arbitrage in check.

The effects of the gold scare were far-reaching and were not confined to the London gold market. The doubts concerning the stability of the price of gold led to a wide-spread movement, not only of gold into liquid balances, but also of securities into liquid balances, as the reduction in the gold price which was anticipated in spite of official denials, was interpreted as a deflationary measure.

(III) Grouping of the countries into blocs or areas.

The Sterling Area.—Since the crisis of 1931 Great Britain has made attempts to forge closer links with the various regions of the Empire and with non-empire countries in what has come to be known as the "Sterling Area."

Whatever the motive—whether economic consolidation, stabilised international exchange, or to counteract the trend towards political disintegration—Great Britain has been trying since that date to build up closer relationships with her economic and political empires.

The instruments which Britain has used in forging these closer links within the sterling area are:—

(*i*) the system of imperial preference embodied in the Ottawa Agreements,

(*ii*) the reciprocal trade pacts with non-empire countries,

(*iii*) the establishment of stable exchange rates with these countries,

(*iv*) the securing of favourable treatment under the system of exchange control,

(*v*) the development of Central Banking in the dominions, and

(*vi*) the preferential treatment in the matter of international loans extended to the dominions and to other countries within the sterling area.

Immediately after Great Britain's departure from gold on 21st September, 1931, the term "Sterling Area" first came into general use to designate that group of countries which chose to follow the pound sterling rather than adhere to gold or to attempt to maintain stability in terms of gold. These countries, while following sterling closely, are not bound together in a formal monetary union. In fact the concept of sterling area is extremely loose and may vary at different times. For these reasons the boundaries of the area cannot be defined precisely.

We may say in general, however, that the sterling area includes, those countries both within and outside the British Empire whose currencies are closely linked to the British pound and whose monetary policies are governed more or less directly by those followed by the British Exchequer and the Bank of England. It embraces, first of all, the far-lying portions of the British Empire—the dominions, the colonies, the mandates such as Palestine and Tanganyika and the Anglo-Egyptian Sudan.

The area includes in the second place, the Argentine and the Scandinavian countries—Norway, Sweden and Denmark—whose currencies were more promptly linked to sterling than even those of the dominions, and have remained ever since, absolutely fixed in relation to Sterling.

Other countries which may be included are Bolivia, Brazil, Colombia, Egypt, Estonia, Finland, Japan, Paraguay, and Portugal.

Within the "Sterling Area"—an area which accounted for more than a third of the total value of the world trade in 1936—exchange rates in 1937 remained rigidly fixed. It is worth noting that the mutual stability of exchanges in the "Sterling Area" is, so long as it lasts, absolute. The countries comprising the "Sterling Group" do not maintain exchange stability by maintaining a fixed price for gold, while allowing the exchanges to move within gold points; even the fluctuations which were thus possible under the gold standard are eliminated in the mutual exchange relationships within the sterling area, as the element of fixity applies not to gold, but directly to the exchanges. The exchange stability within the sterling group has undoubtedly been of some importance in contributing to the increased relative stability of exchange rates, which has been observed in recent years in the world as a whole.

The Dollar Area.—There is the United States, with a few dependent countries who have linked their currencies to the dollar. The monetary policy of the U.S.A., is still primarily directed towards the furtherance of the country's domestic programme and it is only recently that she has shown any willingness to co-operate with Britain and other countries with regard to monetary matters. The dollar was devalued in 1934 and a new gold parity introduced.

The Gold Standard Area.—To this group belong Belgium and Switzerland, who appear to be pursuing a more or less independent policy. The Belga was devalued and a new gold parity introduced in Belgium.

Independent Group.—Lastly there is an important group formed by Germany and Italy, whose monetary policies are subordinated to the political aims and who show no desire to co-operate with other European countries in the settlement of Economic problems.

(IV) Gold production, distribution and sterilisation.

Production of Gold.

The world output of gold between 1929 and 1937, excluding Russia is noted below in millions of dollars of old gold content:—

Years	Million$.	Years.	Million$.
1929	385	1934	481
1930	401	1935	514
1931	426	1936	569
1932	462	1937	608
1933	469	...	...

Thus gold production in 1937 showed an increase of 58% higher than in 1929.

Monetary gold reserves.

The yearly changes which have taken place since 1928 in the aggregate monetary gold stocks of all countries excluding Russia, expressed in dollars of old content are shown below:—

Year 1928.	Total at end of year (1917)	Increase + Decrease (—) during the year $(000,000)	Percentage of change during year per cent
1929	10,249	+332	+3·3%
1930	10,801	÷552	+5·1%
1931	11,061	+260	+2·4%
1932	11,640	+579	+5·0%
1933	11,618	— 22	—0·2%
1934	12,532	+914	+7·3%
1935	12,804	+272	+2·1%
1936	12,979	+610	+4·9%
1937	13,781	+802	+6·2%

The average yearly rate of increase during the whole period 1929 to 1937 was 3·6%. Excluding Spain and Russia the total visible gold reserves at the end of 1937 were 41% higher than at the end of 1929. The absolute amount

of the increase which took place in 1937 was more than twice as great as the increase which occurred during 1929.

One important fact to be noted about the monetary gold reserves is that the depreciation of currencies between 1929 and 1937 greatly increased the value of gold in terms of national currencies. In a number of countries (notably in the United Kingdom and the "Sterling Group") the gold reserve held at the moment of devaluation was not written up. In countries which did write up their gold reserves, the result was a rise in the reserve ratio of central banks. In several countries the revaluation profits were devoted to the stabilisation funds and public works or in repaying public debts; to the extent that this was done, the revaluation affected neither the book value of the central bank's gold reserve nor, therefore, its reserve ratio.

More important is the fact that the price at which additional gold was purchased for reserves in 1937 was 70% higher than in 1929. These two factors—the increase in gold and the higher price—exerted their influence on the supply of money but their effect to some extent has been "sterilised" in recent years. In the countries where the gold stock has not been written up, the gold purchases made at the market price, are shown in the balance sheet at the old legal price and the difference between that and the cost price is also shown on the assets side either as special item or among sundry assets and thereby equally increasing the banks' sight liabilities. This procedure has been practised in the Scandinavian countries and also in Switzerland. The situation is different in the United Kingdom and the Netherlands, where the Central Banks are believed to adhere to the old statutory gold price and purchase gold only from the Exchange Equalisation Funds, which bear the book-keeping loss involved.

Distribution of gold.

The distribution of monetary gold reserves by countries during the years 1933, 1936, and 1937 together with their percentage share of the total monetary stocks of the world is given below:—

Central Monetary Gold Reserves of the World
$(000,000's) of gold

Countries.	1933 Gold holdings	1933 As % of the total	1936 Gold holdings	1936 As % of the total	1937 Gold holdings	1937 As % of the total
1 The U. S. A.	4012	36%	6649	51%	7536	55%
2 France ...	3015	27%	1769	14%	1516	11%
3 United Kingdom.	933	8%	1529	12%	1592	12%
4 Belgium,	380	10%	373	8%	353	9%
Netherlands,	371		289		549	
Switzerland.	386		387		383	
Total for the six countries.	9097	81%	10996	85%	11929	87%
5 Thirteen "Sterling" Countries.						
Canada ...	127	6%	112	6%	109	5%
Australia ...	2		2		2	
Denmark ..	36		32		32	
Egypt ...	33		32		32	
Estonia ...	5		9		9	
Finland ...	8		21		16	
India ..	162		162		162	
Latvia ...	9		9		9	
Newzealand...	21		14		14	
Norway ...	36		46		43	
Portugal ...	34		40		41	
Sweden ..	99		142		144	
U. of S. Africa	83		120		112	
6 Germany ...	109	6%	16	3%	17	2%
Italy ...	373		123		123	
Japan ...	212		273		154	
7 All Other Countries	1142	7%	830	6%	813	6%
	11618	100%	12979	100	13781	100

At the end of 1937, the U.S.A., held more than half the World's gold stock. More than four-fifths of the total gold reserves were concentrated in the six countries participating in the "tripartite" monetary agreement concluded in 1936, which are at the same time the world's principal creditor states: the U.S.A., France, United Kingdom, Belgium, the Netherlands, and Switzerland.

The share of the thirteen "Sterling" countries remained stable between 1929 and 1937 with a slight variation in 1937 due mainly to the reduction in gold reserves of Finland, Norway and the Union of South Africa. The last group—"All Other Countries"—includes China but excludes Spain and the U.S.S.R.

Sterilisation of gold.

In view of the expansion of gold supplies and the increase which has occurred in the value of gold in terms of the national currencies by the revaluation process, the "Sterilisation" of gold with the object of preventing excessive expansion of the volume of money, has come to receive increasing attention in recent years. The various methods of sterilisation which have been practised are indicated below.

Hoarding of non-monetary gold on the part of the public represents an effective form of sterilisation. The cost associated with sterilisation in this case is borne by the private individuals concerned. Monetary authorities cannot rely on this form of sterilisation as changes in private hoards are liable to occur under the influence of extraneous factors and are even capable of affecting the central monetary gold reserves. Special methods have, therefore, been devised by the monetary authorities in certain countries for the purpose in question.

The rise in proportion of gold reserves to total assets of central banks which has taken place in a great number of countries, may be regarded as another form of sterilisation. There was increase in the book-value of gold reserves and a decrease in total assets of the Central Banks between 1929 and 1937 in the following Sixteen Countries: Albania, Czechoslovakia, Bulgaria, Egypt, Estonia, Finland, Latvia, the Netherlands Indies, Norway, Portugal, Sweden, Switzerland, the Union of South Africa, the United Kingdom, Uruguay and Yugoslavia.

In certain countries—the United Kingdom, the United States, the Netherlands, the Argentine,—gold imports have been sterilised by special methods under which Governments or Government funds take up gold with the proceeds of loans

issued in the market. In the United Kingdom, the borrowing powers of the Exchange Equalisation Fund, by which this policy is carried out, were increased by £200 million—from £375 million to £575 million—at the beginning of July 1937.

In the United States, the increase in the reserve requirements of the member banks of the Federal Reserve System, may be regarded as another form of sterilisation. The enormous inflow of gold which occurred after 1933 raised the reserve balances of the member banks to exceptionally high levels. In order to prevent this increase from affecting the domestic supply of credit, the legal minimum ratios were doubled from August 1936 to May 1937. By this method 50% of the gold received by the member banks was sterilised.

The total gold sterilised in the U.S.A., and the United Kingdom alone by means of the special methods was about \$4173 million between 1933 and 1937. The amount is considerably higher than world production of gold during the period from 1930 to 1937 which is shown at \$3930 million in the table given previously.

(V) Movements of short-term funds.

Ever since the Great War, the economic structure has suffered from a surfeit of short-term balances. London and New York have for a long time been the home for short-term balances from other countries, chiefly from France and other European countries. The suspension of the gold standard accelerated the speculative activity in the movements of short-term funds from centre to centre, which have made it almost impossible for the authorities to maintain stability of exchanges. There is, however, a distinct difference between the balances which London held before the War and those which the money markets of the World accommodate to-day. Balances before the War moved very largely under economic influences, the most direct influence being a difference in interest rates. If the short-term investment was more profitable in London than in other monetary centres, then inevitably balances would migrate to London.

When the money market was well organised and interest rates controlled, it was always within the power of the banking system either to expel or to attract balances by varying the Bank rate. Today the purely economic motive has been subordinated largely to political considerations. People are now guided in the movement of their funds, not so much by interest differentials as by considerations of security. Political instability and uncertainity in the European situation have given occasion for transfers of balances from centre to centre and these have been aggravated by uncontrolled currency depreciation.

A large part of the gold acquired by the U.S.A., and the United Kingdom originated in exports of capital from France. If reckoned from the end of 1937, the Bank of France lost $1783 million of gold. It appears that large amounts of French capital have found their way to the United States *via* the United Kingdom, the Netherlands and Switzerland, as recorded in the American statistics as coming from these latter countries.

The flow of funds to the United States chiefly took the form of banking funds, security purchases and gold imports.

The totals of capital transferred and net imports of gold to the U.S.A., are set out in the following table as contained in "Statistics of Capital Movements" published by the U.S.A., Treasury Department.

Capital movements and gold imports into the U.S.A., in $(000,000's).

Inflow of Capital.

Year	Banking funds.	Security purchases	Gold Imports
1935	863·5	547·9	1739·2
1936	396·8	798 5	1030 9
1937 1st 3 quarters	889·7	546·3	1385·0
4th quarter	—644·1		

The devaluation of the gold bloc currencies in Europe at the end of September, 1936 does not appear to have checked the movement of funds to the U.S.A. The attraction of rising share prices seems to have been the chief

influencing factor on the flow of capital. For the year 1936, the share of security purchases was 67% as compared with 39% in 1935.

The inflow of capital for the first three-quarters of 1937 amounted to a little over $1300 million as compared with the inflow of $1195 million in 1936 for the whole year and the increase was probably a result of rumours regarding a possible appreciation of the dollar in terms of gold.

The reversal of the flow of capital in the last quarter of 1937 was mainly due to the stock market decline in New York and the fears of a depreciation of the dollar in terms of gold. But the outflow of capital was not accompanied by a net export of gold. The amount of capital which returned to France in the last quarter of 1937 has been estimated at 10 million Francs.

In certain countries,—notably—Sweden and Switzerland measures were taken to check the inflow of floating balances, instead of neutralising their effects on the domestic credit base. In Sweden, where there was a sharp increase in foreign deposits in 1937—from 288·3 million kronor in 1936 to 520·5 million—the Swedish banks decided to pay no interest on deposits of foreign banks. They further agreed to reduce the maximum rate on foreign time deposits of others than banks from 2% to ½%. Finally by an agreement with France, the Swedish authorities agreed, in return for certain trade concessions to Swedish exports to France, to supply information of funds of French nationals held in Sweden. As a result the total deposits in Sweden declined in the last quarter of 1937 from 557·3 million kronor to 477·4 million.

Similar provisions checking the inflow of foreign capital were also introduced in Switzerland, by banks in agreement with the National Bank, in 1937. They provided that the existing foreign owned sight deposits should cease to bear interest and should be converted into fixed deposits and that new foreign funds were to be accepted only subject to the usual notice of withdrawal. Further, foreign funds, when deposited for less than six months, will be subject to a commission of 1% and may bear interest only when deposited for more than nine months.

No special measures against the inflow of floating balances have been taken, in countries which have adopted a policy of sterilisation as in the U.S.A. and England.

London became the chief asylum for the foreign short-term funds both from the "Sterling Group" and non-sterling group countries. But no data have been published regarding the amount of foreign funds held in the United Kingdom. The central foreign exchange reserves held by the fifteen "Sterling Group" countries from 1929 to 1937 in London are given below. These do not include the external assets of commercial banks in the sterling area.

*Central Foreign-Exchange Reserves of Fifteen *"Sterling Group" Countries*

Year.		£ (000,000's) Total.
1929	...	147 7
1930	...	..
1931	...	79·6
1932	...	106·0
1933	...	164 5
1934	...	205·6
1935	...	208·6
1936	...	219·8
1937	...	252·3

It will be seen that the total increased rapidly in the years 1932—1934. In 1935 and in 1936 the increase slowed down, but the rise which occurred in 1937 was substantial amounting to over £30 million.

These countries keep their exchanges in a fixed relationship with sterling and it is reasonable to suppose that these balances were invested in Treasury Bills through the Bank of England. But the resulting increase in Treasury Bills and the consequent effect of the money rates in London were

* Fifteen "Sterling Group" countries: Australia, Denmark, Egypt, Estonia, Finland, India, Ireland, Latvia, New Zealand; Norway, Palestine, Portugal, Siam, Sweden and the Union of South Africa.

neutralised by the mechanism of Exchange Equalisation Fund.

(VI) Recent Methods of Exchange Restrictions and Control.

The chief object of the imposition of exchange control was the prevention of large-scale withdrawals of capital in the international liquidity crisis of 1931. Seventeen countries introduced exchange control in that year.

The existence of exchange restrictions in debtor countries on withdrawals of capital has been a hindrance to the inward flow of capital of the normal type in response to interest differentials. Investors have naturally been reluctant to lend to countries where capital is permitted to flow only in one direction.

The international movement of capital has been affected, not only by exchange control in debtor countries but also by restrictions imposed in creditor countries on foreign lending. These restrictions have in certain cases represented an indirect form of exchange control.

The prevention of capital withdrawals by means of exchange restrictions in debtor countries naturally involved a comprehensive control of commercial transactions. Particularly in countries which maintained the gold parity of their currencies, the emphasis shifted from the control of capital exports to the control of commodity imports. Thus the main object of exchange control came to be in many cases, the maintenance of an overvalued exchange rate by a reduction of imports corresponding to the decline in the export trade. In a number of countries, exchange control was reinforced by systems of import licences, which were often closely bound up with the exchange restrictions proper and which tended to have essentially the same effect upon trade.

Normal methods of equilibrating the exchanges have, thus, broken down in recent years, on account of the dislocation and falling off in international trade, the frequent fluctuations of the foreign exchanges and the disturbance of the exchange mechanism by war debts, reparation payments

and the withdrawals of capital due to causes other than interest differentials. As a result a variety of extraordinary methods have been adopted in order to achieve a balance of international payments and to achieve some or all of the following objects:—

(*a*) to maintain the gold standard without the necessity of making gold exports when the exchanges diverge from the mint parities;

(*b*) to prevent exchange speculation;

(*c*) to prevent exchange fluctuations and the consequent disturbance of trade;

(*d*) to prevent the outflow of capital or a flight from the currency concerned.

The measures adopted in various countries differ from one another in both intention and application, but the following forms of direct or indirect interference on the part of the different governments may be distinguished:—

(*a*) Restriction of transactions which give rise to Exchange operations;

(*b*) Exchange pegging;

(*c*) Exchange depreciation;

(*d*) Exchange restriction;

(*e*) Exchange clearing.

(*a*) *Restriction of transactions giving rise to Exchange operations.*

The imposition of tariffs and anti-dumping duties and the granting of export bounties are, of course, old established attempts to improve a country's international finances by increasing its exports and restricting its imports; but in recent years, there has been a wide extension of such measures, together with direct action to restrict altogether the import of certain articles, with the object of lessening overseas payments. In many countries "import quotas" are in operation in reference to a wide variety of articles.

In certain cases, however, measures tending to relax exchange and import restrictions have recently been facilitated by the rise in prices in external markets as well as by exchange adjustments. In Denmark, for example, following a rise in the price of some of the country's principal export products, amendments were adopted in 1937, which removed a third of total imports from the licensing system. In Czechoslovakia after the second devaluation of the crown in 1936, exchange restrictions in respect of imports were abolished in 1937; the import licensing system was retained, but the "free list" was extended so as to cover about 50% of the total value of imports, as compared with about 20% previously. In Roumania, about 40% of the imports were placed on the "free list" in July 1937.

The restrictions imposed on foreign lending in the Netherlands, following the devaluation of the florin, these ment in 1931 on foreign loans from the London Money Market had the same object in view. The restrictions in these two cases were, however, relaxed recently. In the Netherlands, following the devaluation of the florin, these restrictions were considerably relaxed in June 1937. In the United Kingdom it was officially announced on February 1, 1938, that the Foreign Transactions Advisory Committee set up in 1936, would in future give sympathetic consideration to applications regarding certain types of foreign issues, if the proceeds of the loan are to be used for purchasing additional goods from the United Kingdom or otherwise give employment in the country.

These restrictions have been imposed as a means of self-defence against forces that have threatened the countries concerned with financial embarrassment, if not disaster. Their immediate effect on the balance of payments may be beneficial, but it is impossible to say whether they will ultimately prove advantageous. One thing is certain, their effect is to strangle international trade.

(*b*) *Exchange pegging.*

This involves official interference with the exchange mechanism of a country, usually with the objects of minimis-

ing fluctuations in the rates of exchange and of stabilising the rates at a predetermined level. The level so chosen may be the ordinary mint parity, when the country concerned seeks to maintain the gold standard: or an arbitrary gold parity, when the country concerned has a currency of silver or paper which it seeks to maintain at a given level in terms of gold or other gold currencies.

The essential feature of the system of exchange pegging is that the Government or other responsible authority is established as a large dealer in exchange, prepared to buy or to sell foreign currencies whenever the principal exchange rates show a tendency to move away from the rates it is required to maintain. If the exchanges of their own accord keep near the required level the authority concerned takes no action, but if the rate tends to move away from the desired level, the authority enters the market as a buyer or seller, as the case may be.

To achieve the necessary control and to maintain the exchange at a particular level, the Government or the Central Bank must have adequate resources; hence it secures funds or credits in foreign centres especially in the centre of any particular foreign currency to which the home currency is to be "pegged" and it utilises these funds to operate on the Foreign Exchange Market. Such funds form what is known as an "Exchange Equalisation Fund" such as is in operation in England, the U.S.A. and many other countries.

So far as these control operations are used to produce exchange stability, their ultimate aim is much the same as that of alterations in bank rate or of open-market operations. But control operations are much more speedy in their effects than bank-rate changes and open-market operations, while they have the great advantage that speculation is discouraged by the knowledge that the controlling authority stands ready to intervene when the exchanges move away from the pegged rates. On the other hand, exchange pegging is subject to the great disadvantage that it may involve the monetary authority in vast financial transactions that are really unrelated to its real functions and may saddle it with enormous liabilities and even loss.

(c) *Exchange Depreciation.*

This is another form of direct interference with the exchanges that in recent years has been resorted to by several countries, *e.g.*, Newzealand and Japan, where the currencies have been placed under control and their exchange value deliberately forced down.

The effect of this deliberate lowering of the value of a currency is (for a time, at any rate) to make foreign currencies more profitable to sell and dearer to buy and so to place a bounty on exports from the country concerned and discourage imports into the country. The country becomes a better market in which to buy goods but a poorer market for the products of the other nations.

The usual result of currency depreciation, however, is to stimulate defensive measures on the part of the countries that suffer from it. Ultimately, it leads to a competitive race in the depreciation of world currencies and it becomes a powerful deflationary factor in the world as a whole, because it causes a fall in the price of those commodities that have their greatest market in the countries whose currencies are depreciated as well as a fall in the world prices of exports from those countries. Hence the final effects of depreciation may be more serious than the evils it was hoped to cure.

Closely allied to exchange depreciation both in its methods and in its effects is the process of devaluation, whereby the gold equivalent of a standard coin is reduced below its previous value, as was done, for example, by the U.S.A. and Czechoslovakia in 1934. Devaluation was effected by these countries in order to lower the exchange value of their currencies so as to obtain an advantage for their export trades. Devaluations of this kind are not to be confused with the type of devaluation effected by a country in order to stabilise its inflated currency.

(d) *Exchange Restrictions.*

In the pure form of exchange pegging no restrictions are placed on ordinary exchange operations: all dealings are left perfectly free, but the responsible authority from

time to time enters the Market as a buyer or seller. Experience has shown, that in many cases, this form of interference does not go far enough and it is found impossible to control the exchanges unless transactions in foreign currencies are subject to some form of restriction. This has been the case mainly in countries which have a heavy burden of international indebtedness and which have suffered from currency instability, including most continental countries, all South American countries, Japan, Australia and Newzealand.

These restrictions may take many forms, of which the following are the most common:—

(*i*) all transactions in foreign exchange are undertaken by the Government or Central Bank;

(*ii*) exchange transactions must be licensed by a responsible authority;

(*iii*) all foreign currency obtained in payment for exports must be sold to the Central Bank;

(*iv*) a proportion of, say, 10% of all payments in foreign currency received by exporters must be sold to the Central Bank; or

(*v*) funds due to foreign nationals are passed to "blocked accounts." Funds so blocked cannot be withdrawn except under licence from the Government or Central Bank and, as a rule, they can be used only for certain specified purposes within the restricting country.

Exchange restrictions adversely affect exporters to the restricting country. In the first three types of restrictions the Government or the Central Bank has almost absolute discretion as to whether it will make foreign currency available for payment for imports and it has also power to discriminate between exporters in different countries.

The fourth method is usually adopted to provide the Government with sufficient funds to serve its loans abroad and thus restrict the amount of money available for payment for imports. The object is to keep a favourable balance of trade, but as no restrictions on the buying of foreign goods

are imposed, imports may exceed in value the amount available for their payment and foreigners find difficulty in securing payment in their own currency.

Where the fifth method is used certain importers are granted licences to pay for imports from abroad in foreign currency, but such licences are restricted, and for any other imports payment is made in the home currency, the amount being passed to a "blocked account." In effect, this prevents the foreign exporter from obtaining payment unless he cares to sell "blocked" currency at a discount.

Special interest, therefore, attaches to the various types of exchange restrictions which have recently been applied in certain exchange-control countries to carry out gradual adjustments of the exchanges with the minimum of disturbance. Austria was the first country to introduce exchange restrictions at the time of the devaluation of its currency in 1932—1934. The Austrian method of exchange control permitted "private clearing" operations between exporters and importers and by the recognition of a free exchange market, exchange control was rendered practically ineffective in commercial intercourse with countries with "free" currencies.

In Latvia and Bulgaria, where private clearing was recognised, exporters after surrendering a certain percentage of their foreign exchange to the Central Banks at the official rates, were allowed to sell the remainder in the free market.

In three European countries—Yugoslavia, Hungary and Roumania—the Central Bank itself buys foreign exchange at a premium above the nominal parity in force and imposes a corresponding surcharge on foreign exchange sold to importers.

In Portugal, exchange restrictions were completely abolished in October, 1937.

In all the South American countries, except Peru, Venezuela and Equador, exchange restrictions are in force. Yet, in South America, exchange depreciation has, on the whole, been heavier than elsewhere. Exchange policy in South America, has thus been different from the policy of most of the European exchange-control countries, where exchange restrictions were used for the defence of the old

currency parities, though in South America also, exchange control was no doubt partly intended to act as a brake on the exchange depreciation. In contrast to most of the European countries in question, where all exchange transactions were rigorously centralised under the appropriate authority, the free exchange market was officially recognised in the South American countries at a relatively early stage. In most cases exporters are required to deliver a certain percentage of their foreign exchange proceeds to the authorities at the official rates and are allowed to dispose of the remainder in the free market. The percentage in question is not always uniform for all commodities, but is varied in certain cases, so as to encourage the export of some commodity or commodities.

The policy of maintaining the official value of the currency at a higher level than that ruling in the free market has, in most cases, been designed to secure a supply of foreign exchange at cheaper rates for the service of the Governments' foreign debt, and has thus represented a special form of taxation. In Uruguay, the object was secured not only by the privileged rate applicable to Government requirements, but also by the maintenance of a substantial margin between buying and selling rates. In other countries, too, the monopoly of exchange dealings, has been an attractive source of revenue to the authorities, as the exchange obtained was sold to importers by auction as in the Argentine.

Outside Europe and South America, the principal "restricted" currency is the Japanese Yen. Exchange control was imposed in Japan in 1932 mainly with the object of preventing the flight of capital. The control was extended to commercial transactions in 1937. In China, exchange restrictions were introduced in March 1938.

(*e*) *Exchange Clearing.*

It is not surprising that the existence of restrictions has had the effect of causing a rapid decline in the foreign trade of the restricting countries and that wherever they exist, traders are strongly agitating to have them modified or removed altogether,

For these reasons several countries have been led to try to obviate the strangling effect of exchange restrictions by entering into agreements for the establishment between them and other countries of the system known as "Exchange Clearing," whereby all payments and receipts between the two countries are required to pass through the hands of an established authority whose business it is to effect an equilibrium by off-setting the payments against the receipts, so doing away with exchange dealings by individual traders.

The importers in each participating country make their payments in their own currency direct to the central bank in their own country and out of the funds so provided, the central bank pays the exporters in their own currency. If an importer has agreed to pay or an exporter to receive payment in the foreign currency, the amount will be converted into the home currency on the date of settlement at a rate fixed by the central bank for this purpose.

While the effect of exchange restrictions is to impede trade, the ultimate effect of exchange clearing is to increase both the imports and exports of the participating countries.

The main disadvantage is, that the system represents an interference with the free play of economic forces and with the liberty of action of the subject. It tends to encourage imports of goods which might not have been purchased or purchased on better terms elsewhere.

More serious is the disadvantage that the system is likely to break down unless there is a true balance of trade between the two countries concerned. The great difficulty is that such agreements tend to stimulate bilateral trade at the expense of three-cornered or multi-cornered trade.

From the standpoint of creditor countries which are not parties to the agreements, the arrangements are definitely objectionable because they imply that the countries which enter into these agreements give preferential treatment to their mutual debts and are against debts which may be due by them to other creditors.

In spite of the objections most of the existing clearing agreements have been extremely beneficial to the participating countries. They have proved more advantageous than other forms of exchange restrictions.

The earliest of such agreements were those concluded in 1931, between Switzerland and Austria. Since then Switzerland has concluded agreements with various other countries, while most countries in Central and South-East Europe and several South American countries have made similar arrangements with countries to which they export and from which they import on a fairly large scale.

Thus the system of bilateral barter has come to play an important part in exchange control. In Argentine, for example, foreign exchange at the official selling rates can only be obtained against exchange permits issued for imports from each individual country up to the amount of that country's purchases of Argentine products. Importers who do not hold exchange permits can only cover their requirements at the higher rates ruling in the free market, and have in addition, to pay a variable tax which always makes the cost of exchange 20% higher to them than to importers in possession of permits. In Greece, the exchange regulations of 1935, have similarly favoured imports from countries with which Greece has an export surplus. Germany, in particular, has been led by her exchange difficulties to build up an extensive system of bilateral barter and clearing arrangements by which she has been able to expand her trade with other countries with "weak" currencies, notably in South-Eastern Europe and South America. To some extent, Germany's bilateral trade control has probably been an influence making for the continuance of exchange restrictions in other countries for the same purpose of bilateral trade regulation.

The names of countries and the year of introduction of exchange control are given below:—

Countries	Exchange Control. Introduction.	Exchange Control. Suspension	Countries.	Exchange Control Introduction	Exchange Control Suspension	Countries	Exchange Control Introduction	Exchange Control Suspension
Argentine ...	1931	...	Latvia	1931	...	Honduras ...	1934	...
Austria ...	„	...	Nicaragua ...	„	...	Italy ...	„	...
Bolivia ...	„	..	Spain... ...	„	...	China ...	„	1935
Brazil... ...	„	...	Uruguay ...	„	...	Belgium ...	1935	1935
Chile	„	...	Yugoslavia ...	„	...	Danzig ...	„	...
Colombia ...	„	...	Costa Rica ...	1932	...	Hongkong ..	„	...
			Japan	„	...	Lithunia ...	„	...
Czechoslovakia ...	„	...	Paraguay ...	„	...	Luxemberg ...	„	1935
Denmark ...	„	...	Portugal ...	„	1937	Ecuador ...	1936	1937
Estonia ...	„	...	Roumania ...	„	...	Iran	„	..
Germany ...	„	...	Salvador ...	1933	1933	Poland ...	„	...
Greece ...	„	...	U. S. A. ...	„	1934	Venezuela ...	„	...
Hungary ...	„	...	Cuba	1934	1934	...	...	...

Evils of Restriction.—These exchange restrictions have been steadily digging the grave of international trade. As soon as one country imposes restrictions other countries do likewise, to protect their own interests.

The very purpose for which these are designed is in itself a powerful influence against their continued existance. For so far as these restrictions have the effect of influencing the balance of payments in favour of the country concerned, they also strengthen its currency and encourage a rise in its value, so placing a handicap on its exports and encouraging imports, with the result that the balance of payments tends again to become unfavourable. Hence the restrictions become even more difficult to uphold and increasingly severe restrictions are called for if the original object is to be achieved. In a word, any attempt to secure a permanently favourable balance of payments by artificial interference with the exchanges is doomed to failure, since it involves an attempt to maintain a state of disequilibrium in the face of strong economic forces working in the opposite direction.

(VII) Increased Control over Banks both Central and Commercial.

(a) *Central Banking Legislation.*

The creation of new Central Banks since 1929 and the passing of amending laws to the statutes of existing Central Banks have given occasion for several departures from the traditional prescriptions drawn up before the war and the post-war reconstruction period.

The first important feature noticeable in the recent Central Banking Legislation is the reinforced control of the State in the ownership or management of the Central Bank. This tendency stands in direct contrast to the ideal of Central Banking in preserving its independence from the control of the State.

The State assumed the ownership of the Central Bank in Canada, Denmark, Italy and Newzealand in 1936. The capital of the Central Bank is owned by the State also in Australia, Finland, Latvia, and Sweden. In other countries

the law provides that the State may hold a stated proportion of the Central Bank's capital, *e.g.*, in Czechoslovakia a third, in Japan half, and in Rumania one-tenth.

As to the changes effected in the management of Central Bank three types may be distinguished. In the first type, the Governments appoint all the members of the Board of Directors, as seen in Newzealand and in Germany. In the second type, notably in the Argentine, Denmark, France and Italy, the State while providing for its representation in the management of the Central Bank, has widened the scope of interests represented on the Board of Directors. The amendments made to the statutes of the National Bank of Belgium in 1937, safeguarding the Bank's independence, may be taken as illustrative of the third type.

A second feature noticeable in the recent Central Banking Legislation is the enlargement in the scope of Central Bank operations by a wider definition of the paper which may be accepted by a bank for discount or as collateral security for advances. It has been extended in three principal ways, (1) by making eligible for rediscount certain types of paper not possessing the traditional qualities of security and liquidity, (2) by authorizing Central Banks to accept new types of securities as collateral security for advances, and (3) by empowering the banks to make more or less direct industrial or commercial advances.

The laws passed in France and the United States of America afford striking examples of the variety of new paper admitted for rediscounting.

The extension of more or less direct industrial and commercial loans by Central Banks has been authorized only in the United States of America, Italy, and New Zealand.

A third noticeable feature in the recent Central Banking Legislation is the extension of the powers and control of the Central Bank over the commercial banking system and the money market in several countries. This extension has been effected by the following methods: (1) by authorizing the Central Bank to undertake open-market operations as possessed by the newly created Central Banks of Newzealand, Canada, India and the Argentine; (2) by introducing a

system of commercial bank ratios variable by a Central Bank according to the condition of the money market and as a complement to open-market operations as is now in effect in the United States of America, New Zealand, the Argentine, Belgium and Australia; (3) by effecting variations in the amounts of fiduciary note issues of the Central Bank to constitute an additional method of control as operated in the United Kingdom, Japan, Sweden and Norway; and (4) by a process of "off-setting" of gold and foreign capital movements, either directly as in the United States of America, or indirectly through the medium of equalization funds as in the Netherlands and the United Kingdom.

Provisions regarding legal cover constitute the fourth important feature of recent legislation. Provisions relating to minimum legal reserve requirements were introduced in the newly established Central Banks of the Argentine, Canada, Newzealand and India. In some countries notably in Austria, Bulgaria, Danzig, Denmark and Latvia legal reserve requirements were reduced in recent years. Germany and Italy, while constituting a group by themselves, have suspended the legal reserve requirements of their Central Banks, the first in 1932 and the second in 1935.

Attention may finally be drawn to the recent revaluation of the gold reserves of Central Banks in various countries and their allocations. In several countries, the profits were devoted to the stabilization funds and public works and in the rest wide differences characterise the use of such funds. This allocation of revaluation profits stands in direct contrast to the tendency of the post-war reconstruction period, when they were utilised in repaying the public debts.

(b) *Commercial Banking Legislation and Control.*

Special legislation regulating the activities of commercial banks has become a common feature in recent years in most countries, while it was an exception in the pre-war and post-war periods. With few exceptions, banking business in almost all countries is subject to detailed regulation and control and where existing legislation is inadequate

further control is under consideration. Before the Great War only the United States of America and Sweden possessed elaborate banking codes.

A brief review of the principal provisions contained in such laws, beginning with the definition of a bank and ending with the nature and powers of the controlling bodies, is given below.

"*Bank*".—The institutions falling under the general banking laws are usually defined by enumerating and describing their operations. In certain cases, a list of the institutions to which the law applies is provided. The exclusive right to use the terms such as "bank," "banker," and "kassa," is reserved for institutions under the supervision of the State.

Licensing.—From the Canadian Act of 1871 to the Turkish Law of 1936, common features in all banking legislation are: registration and State authorization for the establishment of a new bank, for the opening of branches and for banking amalgamations.

Directors and Management.—Regulations regarding the nature and powers of bank directors and managers occupy an important place in several banking laws. Of these three may be noted. The first specifies the qualifications to be possessed by bank directors and managers as seen in the laws of Germany, Belgium, Denmark, Finland, Norway and Rumania. Secondly, certain laws prohibit bank directors from participating in other occupations. Third provision relates to the granting of loans and advances to the directors of a bank. These are either forbidden altogether or limited by law as to amount, or made subject to the consent of the Board of Directors or other managing authority.

Capital and Reserves.—In framing the regulations regarding bank capital and reserves, modern legislators seem to have been influenced by the view that a bank's own resources constitute a guarantee fund for the deposits placed by the public. The regulations in this field are four-fold in character, *viz.*, (1) minimum capital requirements, (2) minimum ratios between the bank's own funds and liabilities to the public, (3) the obligation to constitute

sufficient reserves, and (4) certain regulations regarding the employment of the bank's own funds.

Two principal methods have been employed for fixing minimum capital requirements; in Sweden, Belgium, Norway, Denmark, and Canada an absolute minimum exists applicable to all banks, while in the United States of America, Italy and Japan, the required capital is determined according to the importance of the locality or its population.

Legal minimum ratios of paid-up capital and reserves to total public liabilities have been prescribed in Ecuador, Bolivia, Chile, Germany, Turkey, Sweden, Colombia, Bulgaria, Denmark, Finland, Norway, Poland, Rumania, and Switzerland. The capital ratio will be seen to vary from 5% in the case of Switzerland to 50% in the case of Ecuadorian banks.

With respect to reserve requirements, the majority of the laws specify the percentages of net profits to be carried to reserve until these reach a stated ratio to capital resources.

Detailed regulations regarding the employment of surplus are to be found in the laws of Belgium, Bulgaria, Poland and Rumania.

Liquidity of Banks.—The general problem of the liquidity of banks has been approached in modern banking legislation in three principal ways:—(1) by defining the cash assets and fixing the minimum cash ratio between such assets and the outside liabilities; (2) by stipulating what kind of assets may or may not be acquired; and (3) by regulating long-term credits and loans.

The first two groups of provisions relate to primary (cash) and secondary (liquidity) reserves and are by no means uniform in all countries. Cash reserves include till money and balances with the Central Bank. Liquidity reserves are compulsory reserves of assets which are defined as easily "realisable" and usually comprise short-term paper and securities issued or guaranteed by the State and public credit institutions. Minimum cover requirements are expressed as a percentage of the type of deposits to which they relate. These provisions aim not only at regulating the liquidity of banks but also at providing adequate means of general credit control.

In the application of these provisions in the different countries four groups may be distinguished. In a number of countries only cash ratios are enforced; Turkey is the sole example of a country requiring liquidity ratios alone; in Bulgaria, Denmark, Portugal, Rumania and Switzerland both cash and liquidity ratios have been established; while in Finland, Norway and Sweden, a mixed type of ratio is in force.

It may also be noted that differential cash ratios are applicable according to the nature of the bank in Colombia, the amount of capital in Denmark, the importance of the locality in the United States of America and the proportion of short-term to total liabilities in Switzerland. Most countries lay down separate requirements for sight and time deposits. For the sight deposits the ratio varies from 1% to 3% in Denmark to 25% in Ecuador, while for the time deposits it ranges from 2% in India to 10% in Bolivia. Liquidity reserve requirements are on a uniform basis and relate more generally to sight deposits and the ratio varies from 15% in Denmark to 80% in Portugal.

Finally, the system of varying the cash ratios by a Central Bank according to the condition of the money market and as a complement to open-market operations is the most recent innovation in the field of credit control. It is now in effect in the United States of America, New Zealand, Sweden and Australia.

Long-Term Banking Transactions.—The provisions of the third group relate to long-term credits and loans. The manner in which banks may invest the remainder of their funds is also subject to detailed regulations. The legal provisions covering these are designed to attain one or more of the following objects: to spread risk; to diffuse credit more widely; to prevent industrial and commercial enterprises being controlled by banks; and to separate deposit from mixed banking. These objectives are attained by regulations relating to loans to a single debtor, to transactions in a bank's own shares and to real estate and mortgage business.

Restrictions on loans to one customer are almost universal to-day. These are extremely complicated in the case of the United States of America, Germany and Denmark. The

more usual restriction is one limiting such loans to a definite percentage of the capital. Transactions in a Bank's own shares are forbidden in Canada, Finland, Poland and Rumania but limited to a specified portion of its funds in Portugal and Denmark. Regulations regarding real estate and mortgage business are generally restrictive. In many countries, investment in real estate is forbidden. Mortgage loans are usually placed under the same restrictions as direct real estate transactions.

Publication of Returns.—Though the publication of annual returns was required in various countries by company law, the accounts so published were far from detailed and were not presented on a uniform basis. In order to remedy this defect and to enable the officials exercising control to apply the legal provisions, each banking law prescribes in detail the form in which the accounts have to be published and may specify the individual items to be included under each heading.

The Machinery of Control.—In order to ensure the application of the law and to supervise bank operations and accounts, special controlling bodies have been set up. But there is a wide variety both in the manner of their constitution and in the extent of their functions and powers. Four types may be distinguished according as the control is exercised by the State, the Central Bank, representatives of the controlled banks, or a body composed of the above and other representatives. The first type is the most prevalent. Supervision and control may be exercised directly by the State as in Greece by the Finance Minister. But more often special organisations nominated by the State fulfil these functions as in Canada, Finland and Poland.

The Central Bank is rarely vested with the power of supervision and control over the banks, although it is well represented in the controlling body. India, New Zealand and South Africa are the notable exceptions where the Central Bank exercises such official supervision as is provided for by law.

The Hungarian *Geldinstitus-zentrale*, is the sole example of an independent controlling body originating in the banks themselves with the State represented as a member.

The Belgian and Swiss banking commissions are mixed bodies containing representation of both the State and other banking interests in the country. A peculiar feature of both commissions is that they are not empowered to examine the banks' books directly. This function is entrusted exclusively to Chartered Accountants with special rights and obligations.

A SIMPLIFIED VERSION OF THE TRADE-CYCLE THEORY—II*

BY

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Mr. Keynes' theory of interest has been the subject of a keen controversy. Critics like Mr. Robertson and Mr. Hicks hold that the theory throws no new light on the subject of the determination of the rate of interest and is only an alternative version of the theory which they hold, namely, that the rate of interest is determined by the supply of and demand for loanable funds. Prof. Bertil Ohlin puts the theory in another form as the supply of and demand for credit. These alternative theories may be explained as follows.

The critics agree that saving and investment, in the sense in which Mr. Keynes has defined the terms, are necessarily equal and hence the classical theory that the rate of interest is determined by the demand for and supply of savings is wrong. The forces that really determine the rate of interest are the demand for and supply of credit or loans. Keynes says the rate is fixed at the point at which the demand for money is equal to the supply of it. But a man does not hold all his resources in the form of money; he holds some of them in the form of money and the rest in the form of securities. Now the division of resources between these forms must be well-balanced. An increased desire to hold money necessarily indicates a decreased desire to hold securities. A rise in the demand for money is just another way of expressing a fall in the demand for securities. If, as Mr. Keynes says, in equilibrium, the demand for money must be equal to the supply of money the demand for securities also must be equal to the supply of securities, and the factor which brings about the equilibrium in the

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former case is exactly the same as the one which operates in the latter, namely, the rate of interest. The same value of the rate of interest which equalises the demand for money with the supply of money also equalises the demand for securities with the supply of securities. In other words, a rise in the demand for money does not leave other openings for the employment of money, *viz.*, securities—unaffected; the demand for securities falls; and we will be taking only a partial view of the matter if we simply say that the increased demand for money is adjusted to the supply of money by a rise in the rate of interest; the fall in the demand for securities which simultaneously comes about is also adjusted to the supply of securities by the same means (*i.e.*, a fall in the price of securities which amounts to a rise in the rate of interest). Thus whether we proceed by way of demand and supply of money or demand and supply of loanable funds, we arrive at the same result. A man's division of resources between cash and other assets depends on the importance he attaches to cash in relation to the prices of other assets. The variations in the demand for cash influence only the demand for assets; but the supply of assets has also an importance. Without knowing the supply side of assets, the price of assets cannot be determined.

There is a subtle difference of opinion between Robertson and Hicks on the one side and Ohlin on the other. While the former two economists hold that the liquidity preference theory is only an alternative version of the theory of loanable funds, Ohlin regards it as definitely an incomplete account of the forces that determine the rate of interest.[1] Ohlin's theory may be briefly explained as follows: A man's division of resources between cash and other assets depends on the importance he attaches to cash in relation to

[1] Robertson, "It is not as a refutation of a commonsense account of events in terms of supply and demand for loanable funds, but as an alternative version of it, that Mr. Keynes' account as finally developed must be regarded." (*Quarterly Journal*, November 1936, page 183.) Hicks observes similarly "the latter method is the method of Keynes. It is perfectly legitimate method, but it does not prove other methods to be wrong. The choice between them is a question of convenience" (*Economic*

the prices of other assets. The variations in the demand for cash influence only the demand for assets, but the supply of assets has also an importance. Without knowing the supply side of assets, the price of assets cannot be determined. Thus, in the determination of interest both the supply of money and supply of assets other than money play a part. A theory which takes account only of the supply of money and not the supply of other assets cannot be said to be alternative to the theory which takes account of both.

For a proper appraisal of these criticisms of Mr. Keynes' theory, therefore, we must consider two questions—(1) Does the theory of loanable funds give a fuller account of forces that determine the rate of interest than the liquidity preference theory? (2) If not, is it true to say that it is only an alternative version[2] and gives us as much information as we would get from the liquidity preference theory? All the important criticism by Robertson, Hicks, Ohlin and Hawtrey can be summed up in the replies to these two questions.

Taking up the first question, it may be noted that the demand for loanable funds is the same thing as the supply of claims and assets. Similarly, the supply of loanable funds is the same thing as the demand for claims and assets. It is necessary to emphasise that the demand for loanable funds or credit is not identical with the planned new investment. Funds may be borrowed for increasing hoards, or for financing losses or consumption. Similarly, the supply of loanable funds is not identical with planned new savings, because some of the funds may be provided by reducing the

Journal, 1936, p. 246). Prof. Ohlin, on the other hand, insists that there is a difference between his theory and Keynes' "The difference between Mr. Keynes' theory and my own lies in the fact that Mr. Keynes gives to the quantity of cash a central place, whereas in my opinion the quantity of claims plays just as fundamental a rôle and provides a direct link with the whole economic process." (*Economic Journal*, 1937, p. 127.)

[2] "Thus I remain of opinion that Mr. Keynes' apparatus and the "loanable funds" apparatus are not radically opposed to one another but are alternative pieces of machinery" Robertson, *E. J.* 1937, p. 432.

cash held (*i.e.*, by dishoarding) or out of depreciation allowances. This theory of demand and supply of loanable funds is entirely different from the classical theory that the rate of interest is determined by the equation of the quantity saved with the quantity invested.[3]

Briefly, therefore, the amount of loanable funds demanded at any given rate is equal to new investment plus funds required for financing losses, plus those required for financing consumption plus those required for increasing cash. And the amount of loanable funds supplied at any given rate is equal to current saving, *plus* funds provided out of hoards plus the surplus of depreciation over replacement.[4] But do these omnibus sentences lead us to a different conclusion than the simple equilibrium of demand and supply of money? The demand for and supply of money do appear in the above lists (because the funds required for increasing cash and the funds provided out of hoards are but another names for the demand for and supply of money); but the question is whether the several other quantities which appear in the above lists both on the demand and supply side are really necessary for the determination of the rate of interest. We may take up each item on the demand and supply side, other than the demand for and supply of cash, and see whether we can do without it or not. But since our object is to test the proposition that the demand for and supply of cash are the only indispensable quantities, we will, in considering every other quantity, assume that a change in that quantity brings about no change in the demand for and supply of cash. Of course, a change in any other quantity must *ultimately* affect the demand for

[3] Cf. Robertson "Now Professor Ohlin, like others who have argued in terms of the flow of loanable funds (Haberler, *Prosperity and Depression*, page 195), has most carefully explained that the supply curve of credit and the supply curve of savings, while related, are *not* identical; that the former may contain elements, e.g., dishoardings, which are excluded from the latter; and that it is the former not the latter which is directly concerned in the determination of the rate of interest at any moment" (*E. J.*, June, 1938); thus Robertson allies himself with Ohlin, Hicks and Haberler.

[4] Ohlin, *E. J.*, 1937, page 425.

and supply of cash; but our object is to ascertain the *proximate* forces which determine the rate of interest, not the *ultimate* forces which motivate them. Current investment is necessarily equal to current saving; the demand arising out of current investment, therefore, creates its own supply. An increase in investment, therefore, by *itself* need not bring about a disequilibrium between investment and saving, because an increase in investment itself involves an increase in saving and unless there is such a disequilibrium (*i.e.*, disequilibrium between demand and supply) there is no reason why the rate of interest should be upset. So far, therefore, as the determination of interest is concerned, it is difficult to see why these items should be retained on the demand and supply side. Next, we may take the surplus of depreciation allowances over replacements. If there is an increase in such depreciation allowances offered on the loan market, will the rate of interest fall? In other words, will the supply of savings exceed demand at the existing rate of interest? The answer is in the negative. Even here there is no disequilibrium between demand and supply and hence this is also not a force that should tend to make the rate of interest different from what it is. An increase in uninvested depreciation allowances, if they mean an increase in aggregate saving, will themselves create an increase in investment (probably, automatic investment) or else they will not cause an increase in saving at all. An increase in uninvested depreciation allowances by some companies will cause losses to other companies with consequent reduction in the depreciation allowances set aside by them. Thus either an increase in supply creates its own demand or there is no increase in supply at all. It is obvious that whether there is complete economic equilibrium or not, replacements plus new investment must be equal to depreciation plus new saving. If depreciation exceeds replacements, the other two quantities must automatically get adjusted in such a way as to maintain the equality between the two sides of the equation. There is no valid reason, therefore, why this quantity, namely, the uninvested depreciation allowances offered on the loan market should be indispensable for the determination of the rate of interest.

This brings us to the funds required for financing losses and those required for financing consumption. Both quantities describe exactly the same phenomena, namely, the debt incurred by a man when his outlay exceeds his income, and can, therefore, be discussed together. If there is an increase in the funds required for financing losses or consumption, will the rate rise? The answer is again in the negative. This is also an example of demand creating its own supply.

We may consider the case of entrepreneurs in consumption goods industries who incur losses due to the increase in saving on the part of the public and who sell securities to finance the losses. The entrepreneurs will incur losses only so long as they maintain their output at the old level and keep disbursing money to the other factors of production at the old rates of remuneration, but while they are doing that, they are themselves creating resources out of which the savings required to buy their securities are provided. Thus, there is no disequilibrium between demand and supply. If we like, we may start from a position of perfect equilibrium and imagine that certain members of the public experience a desire to consume more than their income. (This is the antithesis of spontaneous saving, we may call it spontaneous dis-saving.) *Ipso facto*, this means an increase in the community's propensity to consume and so long as other things remain equal, there will be an increase in income. Thus, a desire to live beyond means on the part of some people creates means for others out of which the desire is satisfied. A numerical example may make this clear. Suppose total income = 100, consumption = 75, investment = 25. If some people borrow 5 to spend on consumption, the public's voluntary savings come down from 25 to 20, consumption increases from 75 to 80, but as investment continues unchanged at 25, income must increase from 100 to 105 (80 + 25) and there must be unintentional savings of 5, because although voluntary savings are 20, aggregate savings are 25 (105—80, *i.e.*, Income—consumption). Thus an appropriation of a part of the current savings by people who like to live beyond their means, does not *starve* the investment market; it automatically creates resources out of which

the savings required for current investment are provided. Thus, on examination, it is found that even borrowing for consumption or for financing losses does not create a disequilibrium between the demand for and supply of credit and hence there is no reason to regard these two quantities as indispensable for the determination of the rate of interest.

Nor does Prof. Ohlin's distinction between the ex-ante and ex-post concepts help very much.[5] For, even when ex-ante investment exceeds ex-ante saving,[6] that *by itself* is not a sufficient reason why the interest rate should rise, because the difference will be necessarily made up by unintentional saving or by unintentional disinvestment.

We are, thus, left with the two residuary quantities— the demand for cash and the supply of cash. Does the demand for cash create a supply of cash? Obviously no. The problem which arises in the case of other quantities does not trouble us in the case of money. The demand for money depends on the people's liquidity preference, but it is not in the hands of the public to influence the quantity of money. Thus it is the demand for and supply of money that *proximately* determines the rate of interest; and even if we introduce a host of other quantities on either side, they simply cancel each other so far as the proximate influence on the rate of interest is concerned, leaving the latter to be determined by the demand for and supply of money. This is not to say that they have no influence on the rate of interest, but their influence works through the demand for and supply of money which is the real proximate cause and they are just part of the ultimate penumbra of circumstances which form the background of any economic event or tendency.

Prof. Ohlin maintains "Mr. Keynes gives to the quantity of cash a central place, whereas in my opinion, the quantity of claims plays just as "fundamental" a rôle and provides a direct link with saving, investment and the whole economic process." Yes, the link is important, but the link

[6] This case is further discussed on pp. 45-6 below.

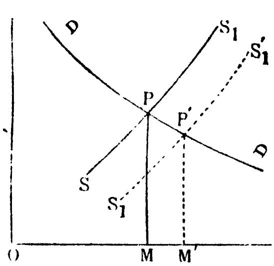
[5] *E. J.*, 1937, page 423.

will be lost sight of unless we focus attention on the concrete channel through which it operates.

We may conclude that Prof. Ohlin's theory which takes into account both the quantity of assets and the quantity of money does not provide a more complete explanation of the determination of interest rate than Mr. Keynes' liquidity preference theory. We can arrive at the same result by considering *only* the demand for money and the quantity of money.

The next question is whether it is right to regard the liquidity preference theory as only an alternative version of the theory that the rate of interest is determined by the demand for and supply of loanable funds. Both Mr. Robertson and Mr. Hicks hold that it is nothing more than an alternative version. Mr. Robertson puts the point thus—"Suppose, for instance, that owing to a return of political confidence the inhabitants of a certain country become less anxious to hold their wealth in the form of cash, and that, as a result, their Government is able to float a public works loan larger by £10 million, at a rate of interest lower by 1 per cent than would otherwise have been the case. Why may we not express what has happened in terms of a shift to the right in the supply curve of loanable funds, entailing an intersection with the demand curve at a lower point on the latter?"[7]

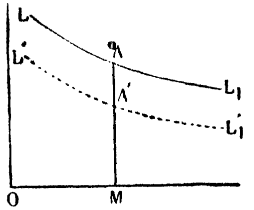
It may be convenient to describe Mr. Robertson's example graphically. D D_1 shows demand for loanable funds at different levels of interest rates and SS_1 the supply of loanable funds. When the inhabitants become less anxious to hold cash, they become willing to invest a larger amount in securities at any given rate of interest, i.e., the supply of loanable funds at any given rate increases. This involves a shift of the supply curve to the



[7] *Economic Journal*, 1937, page 430. Mr. Keynes has not replied to this criticism.

right (to the position of $s's'_1$) and as the demand curve has a declining shape, the new point of the intersection is lower than the old and hence the rate of interest falls from PM to P'M'.

Mr. Robertson's example can be represented graphically in terms of liquidity preference also. LL_1 shows the amount of money which people would like to hold at different levels of interest. OM is the quantity of money. When the inhabitants become less anxious to hold their wealth in the form of money, the curve LL_1 falls to the position $L'L'_1$; and as the quantity of money OM is fixed, the rate of interest falls from Am to A'M'.



Now, this latter statement contains one important quantity which the former does not; while the former contains one which the latter does not. In the second graph, the interest rate falls from AM to A'M and cannot be other than A'M, because the quantity of money is constant at OM. But, then, the rate of interest is determined independently of the demand curve for loanable funds. In the first graph, on the other hand, the demand curve for loanable funds is used, but the quantity of money does not appear. Now, which of these two factors is more important for the determination of the rate of interest—the quantity of money or the demand curve for loanable funds? The reply is the quantity of money. Because, if considering the quantity of money and the change in the state of liquidity preference (this latter factor is common to both the statements), the correct level of the rate of interest is A'M, the level of the interest rate which will be determined by the intersection of the demand for and supply of loanable funds cannot be higher or lower than A'M. P'M' cannot be different from A'M. If it is, it means that the advantage from holding securities is higher than from holding money. More and more resources will be diverted towards the purchase of securities, and the supply curve for loanable funds will continue to shift to the right until the new level of P'M' is equal to A'M. What, then, is the significance of the demand

curve of loanable funds? So far as the determination of the interest rate is concerned, it is nil; because the shape of the demand curve does not determine the level of the interest rate, but only *how far to the right* the supply curve of loanable funds has to shift in order that P′M′ should be equal to the rate of interest which is already determined by the liquidity preference and the quantity of money, *i.e.*, A′M. In other words, the shape of the curve only tells how much investment will be forthcoming if the rate of interest is at a given level.

Thus, the reply to Mr. Robertson's question "Why may we not express what has happened in terms of a shift to the right in the supply curve of loanable funds, entailing an intersection with the demand curve at a lower point on the latter?" is, that, you may, provided you do not overlook the fact that the extent to which the supply curve of loanable funds has to shift to the right is determined by some other equation or some other graph which does not appear in your statement of the matter. If we change the shape of the demand curve, we only change the distance by which the supply curve has to move to the right, we do not change the rate of interest. The altered shape of the demand curve only affects the position of SS_1. The supply curve is not in a stable position when it is at $S'S'_1$; it attains stability only when it reaches the position $S''S''_1$ and the rate of interest P″M″ becomes equal to P′M′ of Figure I.

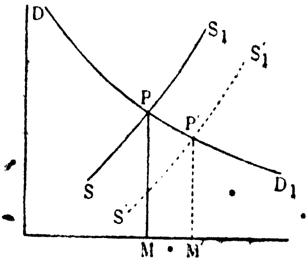


Fig. I

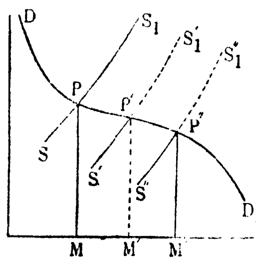


Fig. II

Thus, the essence of Mr. Keynes's theory of interest is not that the rate of interest is determined by the demand for and supply of cash, but that the rate of interest cannot

fall below the gain by way of liquidity which the marginal holder of money expects to get by holding the money. The rate of interest is a purely monetory phenomenon, it is the own rate of interest on money itself.

The theory of the demand and supply of loanable funds is not, therefore, an alternative version of the liquidity preference theory; and hence the statements made by Robertson and Hicks to this effect are not correct. Mr. Keynes' theory contains an important assumption regarding liquidity preference and we have now to examine how far this assumption is valid.

At the beginning of the discussoin of the interest rate, a reference has been made to the circular reasoning involved in the marginal productivity theory. The rate of interest cannot be determined by the marginal productivity of of capital, because the marginal productivity is what it is because of the existing scale of investment which is due to the rate of inetrest. Mr. Keynes tried to break the circle by making the rate of interest dependent on an outside factor, namely, the liquidity preference, so that the marginal productivity has only to approximate to the rate of interest so determined. But if it can be shown that the liquidity preference itself is influenced by the marginal productivity, we are back again in the midst of the circular reasoning. Marginal productivity has to approximate to the rate of interest, but the rate of interest is determined by the liquidity equation or some of other graphs which does not appear in preference which is influenced by the marginal productivity.[8]

If there is a rise in the marginal productivity, then there will be an inducement to increased investment at the existing rate. Increased investment means increased income

[8] Mr. Hawtrey makes strenuous attempts to show this (in *Capital and Employment*, pp. 181—197). Robertson's reference to the subject in his note in *Economic Journal* (June 1938) contains no convincing argument. But these critics do not deny the importance of "liquidity preference" altogether. Cf. Robertson: "I am prepared too with Mr. Hawtrey and Mr. Hicks to concede to Mr. Keynes that so-called liquidity considerations might in certain conditions set a limit to the practical fall in the long-term rate of interest." (*E. J.*, 1937, p. 434.)

and activity which requires increased cash for transaction purposes. The total quantity of money is put to two uses, transactions and hoarding. $M = M_1 + M_2$. If there is an increase in activity, M_1 tends to increase at the expense of of M_2. Assuming that the schedule of liquidity preference is unchanged, the reduction in the quantity available for hoarding involves that some of the erstwhile hoarders must be induced to part with liquidity by offering them the temptation of a higher rate of interest or a lower price-level of securities, in order that the quantity of money demanded by people who continue to remain hoarders is equal to the quantity available for the purpose. If the banks desire to maintain the rate of interest, they must increase the quantity of money sufficiently to satisfy the hoarding demand at that rate.

Can this rise in the rate which ensues from a rise in the marginal productivity be said to be an example of the effect of marginal productivity on the interest rate? If so, Mr. Keynes has not succeeded in breaking the circular reasoning. But the fact is that it will be wrong to attribute the rise in the rate of interest to the rise in productivity. The rise occurs because the liquidity preference schedule is unchanged and it can be prevented by an increase in the quantity of money; so that the rate will continue unchanged in spite of the rise in productivity. If, however, the liquidity preference schedule itself is raised as a result of the rise in productivity, then the rate of interest cannot but rise, in spite of the increase in the quantity of money. The quantity of money will have to be increased further in order to prevent the rise.

Mr. Hawtrey has discussed the reverse action of the marginal productivity on the liquidity preference.[9] When the marginal efficiency falls, the investment will be maintained only if the rate of interest falls; but the rate of interest is said to be held up by liquidity preference, *i.e.*, by people's ideas regarding a safe rate of interest. Of course, a reduction in investment will release money from industrial circulation and the supply of money available for hoarding having

[9] *Capital and Employment*, pp. 181—97.

increased, the rate of interest will tend to fall. Mr. Hawtrey suggests that the continuance of the low rate will itself lower people's idea regarding a safe rate, so that when the low rate stimulates investment and M_1 begins to increase at the expense of M_2, the rate of interest will not rise again in spite of the reduction of M_2.

Mr. Keynes says that the public's idea about a safe rate depends on their expectation regarding the policy of the monetary authority. If they expect that the monetary authority want to maintain a rate of 6 per cent, and if the actual rate is 6 per cent, they will not hoard; $M_2 = 0$. But if the actual rate falls below 6 per cent, M_2 will grow. If the monetary authority wants to establish a rate of 4 per cent, when some people expect that it wants a rate of 6 per cent it must create a sufficient supply of money to satisfy the hoarding demand of those who think that it wants a rate of 6 per cent. Mr. Hawtrey thinks that the possibility of the public and the monetary authority running continually at cross-purposes in this way is imaginary. Hence, the liquidity preference arising out of this cause is not likely to be very important. At any rate, people's expectations regarding the intentions of the monetary authority can be changed by the persistence by that authority in one policy for a sufficiently long time. Mr. Keynes himself does not rule out this possibility. He alludes, for example, to the fall in the long-term rate of interest in Great Britain after her departure from the gold standard. "The major movements were effected by a series of discontinuous jumps, as the liquidity function of the public, having become accustomed to each successive reduction, became ready to respond to some new incentive in the news or in the policy of the authorities." (*General Theory*, p. 204.) Mr. Hawtrey observes "If the liquidity function is thus liable to be modified on empirical grounds several times in the course of four years, the conventional rate of interest is not likely to be a very serious obstacle to the restoration of equilibrium."[10]

The reverse action of the marginal efficiency on

[10] *Op. cit.*, page 197.

liquidity preference or the amenability of liquidity preference to monetary control is a matter of opinion. But Mr. Hawtrey raises a point of theory, when he says that the concept of liquidity preference is not of great importance because in practice the volume of idle balances is not very large.[11] This is a fallacy. Even if the amount of money available for hoarding is zero and the actual hoarding is zero, we can say that the rate of interest is governed by the demand for hoarding because a fall in the rate will cause an increase in hoarding above zero. Some of the present lenders are potential hoarders, and a fall in the rate will cause some lenders to turn hoarders and if no money is available to satisfy this potential demand for hoarding, the rate of interest must remain where it is. Thus, the influence of hoarding on the rate of interest is independent of its actual magnitude.

Mr. Hawtrey raises another objection. Even when it is granted that there is a risk of loss of capital in long-term lending which induces people to keep liquid and the long-term rate must be high enough to overcome this liquidity preference, there is no risk of loss of capital in the case of short-term lending and hence Mr. Keynes' theory provides no explanation for the short-term rate. A little reflection will show that it is not so. The short-term rate has got to be in appropriate relation with the long-term rate and hence the forces which determine the long rate also determine the short rate. If the short rate continues unchanged, when the long rate rises, the prices of long-term securities will fall while those of short-term securities will remain unchanged. There will be an inducement for borrowers to borrow short and lend long. In fact, even short-term lending does involve a certain loss of liquidity. When people's liquidity preference increases, the loans having the highest degree of illiquidity have to fall most heavily in price to induce people to hold them, loans which are a little more liquid (*i.e.*, maturing at an earlier date) have to fall in price a little less and so on. Short-term loans will fall very little in price,

11 Mr. Robertson appears to endorse this view as well as the view stated in the next paragraph. *Economic Journal*, 1937, pp. 431-35.

because the risk of loss of capital is very small. Thus, rates vary for debts of different maturities according to differing degrees of liquidity.

Two more observations are necessary regarding Mr. Keynes' theory of interest. The view expressed by Mr. Hawtrey that Mr. Keynes has exaggerated the importance of the long-term rate of interest as a determinant of the rate of investment deserves consideration. According to Mr. Hawtrey, the investment market controls new investment by more direct methods.[12] There is always an unsatisfied fringe of borrowers at any given rate, and an increase in investment can take place by a relaxation of the markets' restrictive methods without an actual reduction in the rate. Secondly, Mr. Keynes has underestimated the part played by the short rate in monetary manipulation. Short-term borrowing takes place mainly for financing the working capital. In Mr. Keynes' view, after stocks reach a certain minimum level, a further increase in them means no convenience to the holder to offset the cost of carrying them, so that stocks will increase only if there is a prospect of an increased turnover or a rise in prices.[13] A reduction in short rate by itself does nothing to induce traders to increase their investment in stocks. Mr. Hawtrey holds that the assumption that stocks above the minimum are held only in the hope of a rise in prices is true only of seasonal commodities. It is not true in the case of commodities whose supply can be quickly adjusted to demand. In their case, stocks above the minimum are held, not necessarily in anticipation of a rise in prices, but for the convenience of buying in large quantities, which Mr. Keynes has underestimated or overlooked. This convenience is again a kind of yield which (combined with any possible rise in prices) is to be reckoned against the cost of storage and interest. If the rate of interest falls, larger stocks will be held. In

[12] Mr. Harrod also shows scepticism regarding the efficacy of the rate of interest as a means of controlling investment. (*The Trade Cycle*. pp. 124-25.)

[13] Mr. Harrod agrees with Mr. Keynes in this respect. (*The Trade Cycle*, p. 122.)

a short period, an increase in stocks has the same effect as an increase in net investment. Thus, short rate is also an important instrument of monetary policy.

The critics have found it difficult to reconcile the liquidity preference theory with the phenomenon, known as Gibson paradox, which is associated with the later phases of a monetary expansion.[14] The paradox arises out of the fact that rising output, prices and wages are usually correlated with rising rates of interest. *Prima facie*, this seems to be a positive evidence of the reverse influence of productivity on the rate of interest and does not end the matter. Even Mr. Keynes attributes the rise to the increased needs of cash instead of to increased productivity, because in this case the increased need for cash arises out of the requirements of industrial circulation and not of speculation, while in Mr. Keynes' theory the rate of interest is mainly determined by the requirements of speculation. It is not, however, difficult to remove this perplexity. The rise in the rate in this case can be explained as follows: The rise in expectation which accompanies an expansion of output acts on the marginal efficiency of capital and makes a larger scale of investment possible at the existing rate of interest. The increase in investment involves increased needs of cash, which can be available only if the amount of hoards is reduced. The liquidity preference schedule (relating to hoards) remaining unchanged, a reduction in hoards can take place only at a higher rate of interest; hence, the rate of interest rises. This objection, however, draws attention to the importance of the influence which industrial circulation may at times indirectly exercise on the rate of interest, though it seems logically more consistent to treat the rate of interest still as being functionally related with the hoards, because the amount of the latter varies more *directly* with changes in the rate of interest than the amount of industrial circulation. However, this is a point which may be conceded

[14] Cf. Mr. Robertson's discussion on the subject (*Quarterly Journal of Economics*. 1936. p. 180). "During this phase, productivity conditions play not merely a part but a leading part in determining its level" (p. 178).

to the critics, so long as the explanation of the rise in the rate proceeds in terms of liquidity,[15] *i.e.*, needs of cash and not in terms of the orthodox concepts of rising productivity or shortage of saving. Because we can imagine situations in which a tendency towards increasing production can be thwarted by rising liquidity (in fact, the collapse which follows a boom is due to the contrast between increased needs of cash for industrial purposes on the one hand and an unchanged or rising liquidity preference relating to hoards on the other). The idea of shortage of saving is similarly wrong.[16] If a rise in the rate which takes place in a boom is due to a shortage of saving, it can be cured only by an increase of saving, but in fact, an increase in the quantity of money is all that is necessary to prevent it.

In the course of this controversy, attention was drawn to another important aspect of the industrial circulation. In his *General Theory*, Keynes makes industrial circulation M_1 a function of income and activity (Y); but it is possible that M_1 may tend to rise even before an increase takes place in Y, for example, when the banks give loans to entrepreneurs who are about to embark on some investment project. Till the actual investment takes place, the loans remain as money in the hands of the entrepreneurs. This type of increase in the needs of "finance" takes place even before the increase in income and may tend to raise the rate of interest. Mr. Keynes' critics are, however, wrong in using this as an evidence for the influence of productivity on the rate of

[15] Mr. Robertson in a place puts the liquidity theory thus: "The actual rate of interest depends on three things, the amount of money which people wish to hold for "transaction" purposes, the amount of money which the monetary authority permits to exist and the nature of the schedule of liquidity preference proper" (*Q. J. E.*, 1936, 182). So long as the matter is put in this way, there need not be any difference of opinion, because the factors which determine the rate are still the demand for cash (maybe, the total demand, industrial and speculative) and the total supply of cash.

[16] Cf. Dr. E. S. Shaw's statement quoted by Robertson in "Mr. Keynes and Finance" (*E. J.*, 1938, p. 319)—"The rate of interest will rise because the public's savings are in short supply." Mr. Robertson supports Dr. Shaw's view.

interest. The rate rises because of the increased needs of cash, pure and simple, which itself is due to the time lags between the inception and the execution of the entrepreneurs' decision, between the receipt and disposal of income by the public, between the receipt by entrepreneurs of the sale-proceeds and the payment by them of wages, etc.[17] The temporary stringency which arises is gradually relieved as these time lags are overcome in successive periods; the money lent to entrepreneurs comes back to the banking system and is available for relending. (Mr. Keynes calls this "the revolving fund of finance.") The point to emphasise here is that the influence of increased activity on the rate of interest works through the demand for cash; it is the liquidity of the money market which determines the rate of interest, not the marginal yield or the shortage or surplus of saving.[18]

The central part of Mr. Keynes' theory consists in the conflict which arises in a rich community with rising income between the tendency of saving to increase on the one hand and the weakening of inducement to invest on the other. This latter is due to the high liquidity preference of the public preventing the rate of interest from falling to a low enough level. The propensity to consume and the liquidity preference thus occupy the central place in Mr. Keynes' account of industrial fluctuations. If a sufficient amount of investment is not forthcoming to balance an increase in saving, both income and employment must suffer a cumulative recession; and Mr. Keynes says that liquidity preference may at times be the chief hindrance in the way of investment.

This brings us to what is perhaps the most vital question in the trade-cycle theory, namely, whether there are any secular obstacles to an increase in investment. As we have seen a rise in income means a rise in saving and unless there

[17] Keynes, *E. J.*, June 1938, p. 319.

[18] As a specimen of the "orthodox" view cf. Taussig "The rate of interest settles at a point where the marginal productivity of capital suffices to bring out the marginal instalment of saving." (*Principles*, Vol. II, p. 20.)

is a rise in investment to balance it, the rise in income cannot be maintained. Mr. Keynes lays the whole emphasis on liquidity preference as an obstacle to investment, though irrational fluctuations in marginal efficiency also play a part. But even if we admit (in spite of the difference of opinion about it) that the rate of interest is held up by the liquidity preference, movements of interest rates do not give us a complete explanation of the causes that govern fluctuations in investment. We must, therefore, seek further light on the factors that influence the inducement to invest and the inducement to save. The writings of Messrs Hawtrey and Harrod provide the necessary material to supplement this part of Mr. Keynes' theory.

An increase in investment may come about for three reasons. Firstly, there is what Mr. Hawtrey calls "the widening of capital;" the extension of productive capacity to take advantage of an actual or prospective rise in demand. The opportunities for selling additional output, whether or no there is any fall in the rate of interest, will justify any entrepreneur in extending his productive capacity. The widening of capital can come about without a fall in the rate of interest. There need not be any fall in the supply price of capital, nor need a rise in future price of output be expected; in other words, there need be no change in marginal efficiency. An increase in investment can take place without a change either in the rate of interest or marginal efficiency. Mr. Harrod gives a precise form to the relation between new investment and the increase in consumption demand. He calls the ratio between the two "the Relation."

Secondly, investment may increase because the proportion of capital per unit of output increases. If investment is pushed into uses in which its yield is lower, the amount of capital per unit must increase. For an increase in investment of this type, the rate of interest must fall.

Thirdly, the fall in interest may make capital cheaper relatively to labour. Capital may be substituted for labour. In this case also the amount of capital per unit of output increases. The substitution of capital for labour and the consequent increase in the amount of capital per unit of out-

put, may take place even without a fall in the interest rates, due to technological improvements. These last two increases in investment are termed by Hawtrey as "deepening of capital."[19]

Mr. Harrod's Relation is the ratio between investment and consumption demand, and "deepening" obviously is only a change in the relation. A proper analysis of the character of the Relation will therefore give us all the clues we need regarding the part played by both widening and deepening in the fluctuations in investment.

In Mr. Keynes' theory, once the level of profitable investment is determined, the main force which determines the total income corresponding to the investment is the multiplier. What is the distinction between Mr. Keynes' Multiplier and Mr. Harrod's Relation? Is it necessary to have both, the Multiplier and the Relation, to explain the causal sequence of the Trade Cycle?

Mr. Harrod has made no attempt to clear away this perplexity, thinking perhaps that the matter is too obvious to cause any perplexity. Perhaps a simple arithmetical example may suffice to make the point clear and to remove any doubts that may arise. The multiplier is the relation between investment and income, while the Relation is the ratio between new investment and an *increase* in consumption. In order that new investment should come into existence, it is necessary that consumption should increase. If consumption remains steady new investment will be zero; if new investment is to increase year by year, consumption must not merely increase but increase at a higher rate every year. The absolute amount of new investment is thus related to the rate of increase in consumption.

Let us call the total income Y, consumption C, investment I, the multiplier K and the relation R. C and I are aggregates, increments in them may be indicated by small c and i. Then $K = Y/i$, but $R = c/i$. A little reflection will show that *if a condition of steady advance is to be maintained, both K and R must remain constant or if K changes, R must change to an appropriate extent.* A steady advance may be

[19] *Capital and Employment*, p.

defined as one in which the ratio of the increment of output to the previous level is constant; this involves an increase in output in a geometrical series. The following is a numerical example of such a steady advance which is maintained, thanks to the constancy of both the Multiplier and the Relation. I do not know how far Mr. Harrod would like the following method of numerically representing the ideas regarding a steady advance. Because the different parts of the economic world do not change with mathematical precision. But provided this is remembered, the following would, I think, help understanding.

TABLE I.

A STEADY ADVANCE (with the Relation and the Multiplier constant).

I	II	III	IV	V	VI
Period.	New invest-ment. j	Consumption *increasing* at the rate of $\frac{c}{C}$ C+c	Income Y=i+c+C	Relation $R=\frac{c}{i}$	Multiplier $K=\frac{Y}{i}$
t_1	5	100+20	125	4	25
t_2	6	120+24	150	4	25
t_9	7·2	144+28·8	180	4	25
t_4	8·64	172·80+34·56	216	4	25
t_5	10·368	207·36+41·472	259·20	4	25

(This can rightly be called a condition of steady advance because $\frac{150}{125}=\frac{180}{150}=\frac{216}{180}=\frac{6}{5}$ (constant). The relation holds between total investment and total consumption also, provided was assume that in the above example, the pre-existing investment in t_1, was 25).

It will be observed that at each stage t_1, t_2, t_3 . . . . t_5 we have postulated perfect equilibrium, so far as the relations between investment, consumption and total income are

concerned. But at each successive stage, each of these three quantities has attained a higher value; and our previous analysis of the multiplier shows that the transition from a lower to a higher income initiated by an increase in consumption or investment necessarily takes time and is attended by some disturbance of the economic system, in which automatic disinvestment, induced investment, automatic saving, induced saving, etc., all play a part. The 't_1' 't_2,' etc., of the above table are therefore much longer than the 't_1' 't_2' of the table used in describing the working of the Multiplier, and hence the above table gives us at once a more concise and drastically simplified account of the matter.

At every stage, i in Column II bears to c in Column III a relation which is given in Column V. Total consumption is increasing at a constant rate of 20 per cent and the multiplier which is the ratio of new investment to total income, is constant at 25. At every stage, the amount of new investment required to meet the requirements of the increase in consumption is given by the relation, that is to say, every unit of new investment has its justification in the increase in consumption, which has taken place; while the necessary amount of saving which should be forthcoming to balance the new investment is ensured by the multiplier. Here there is a perfect balance so far as investment and consumption are concerned at every stage. Not only is the necessary amount of investment supposed to be forthcoming at each level of income, to balance the saving which results from that income, but that amount is technically required to meet the needs of consumption which goes with that income. The relation, therefore, takes account of the technical relation of the new investment and increase in consumption, while the multiplier simply tells us of the monetary equilibrium between new investment and new saving. As investment has a connection both with saving and with consumption, a combination of the multiplier and the relation gives us a fuller account of what happens than an analysis which proceeds with the multiplier alone.

It will also be noticed that the above Table gives us a more dynamic picture of economic processes than

the Table (on p. 253 of January, 1941 issue of the *Journal*) describing the work of the Multiplier. This will be clear merely by a simultaneous glance at the two Tables. The Multiplier also tells us how income can expand cumulatively, but the expansion comes to an end as soon as the normal value of the multiplier as determined by the marginal propensity to consume is restored. The expansion goes on only while the marginal propensity to consume and the multiplier are lower than the normal figure. As soon as they reach the normal figure, it stops. But in the above Table we have taken broad enough stages so that at every stage the value of the multiplier and the marginal propensity to consume is the same as before; and still expansion is continuing. Evidently, this is a better and more realistic view. It is necessary to emphasise that not merely is the expansion continuing, but it is justified at every stage. The thing is a model of ideal progress—in none of the stages there is anything which indicates the possibility of recession rather than of progress.

A consideration of the above Table also brings out another important significance of the Relation. In a way, the relation determines the relative rate of progress of different communities. While the Multiplier determines the amount by which total income will increase as a result of a given net investment, the relation gives us the rate at which net investment and consumption will increase. Let us imagine two communities, having exactly the same investment, and also the same propensity to consume. They have, therefore, the same multiplier. But let us suppose the relation in one case is different from that in the other. So long as the relation and the multiplier are constant, both are capable of steady advance, but the rate of advance in the community with higher relation, *i.e.*, with less capitalistic production is higher than in the community with lower relation, *i.e.*, with more capitalistic production.[20]

[20] Mr. Harrod does not appear to be aware of this aspect of the Relation.

TABLE II.

Community A.

Period.	Net Investment i	Consumption $C+c$.	Income $Y=i+C+c$.	Relation $R=\frac{c}{i}$	Multiplier $K=\frac{Y}{i}$	Rate of increase in income per unit of time.
t_1	5	100+20	125	4	25	...
t_2	6	120+24	150	4	25	20%

TABLE III.

Community B.

Period.	Net Investment. i	Consumption $C+c$	Income $Y=i+C+c$	Relation. $\frac{c}{i}$	Multiplier $\frac{Y}{i}$	Rate of increase in income per unit of time.
t_1	5	80+40	125	8	25	...
t_2	7·5	120+60	187·5	8	25	50%

Both communities are equally rich to start with, with income equal to 125; in both the marginal propensity to consume is equal to 25; and in the initial period t_1 the net investment is also equal to 5 in both cases. But in one case, the production is more capitalistic (the relation is lower) and in the other it is less capitalistic (the relation is higher). For consumption 100 in A a capital equipment of 25 is required, the relation being 4, an increment of 5 in capital equipment will correspond to an increment of 20 in consumption. For consumption 80 in B, a capital equipment of 10 is required, the relation being 8, an increment of 5 will correspond to an increment of 40 in consumption. The rate

of advance will be uniform in both cases, but the rate in one case will be 25 per cent, in the other case, 50 per cent.

Thus the initial equality of status between A and B is apparent rather than real; one has *potentially* a higher rate of advance than the other. It may also be added that the inducement required in a capitalistic society (in the shape of an expected increase in consumption demand) is lower than that required in a less capitalistic society, the former is, therefore, liable to more frequent fluctuations than the latter.

Let us now see how the advance of income and output described in the first Table (p. 58) gets checked. It is clear that the advance is maintained, because consumption is rising or is expected to rise. If there is no *rise* in consumption, there is no net investment, because that is the law of the relation. If the rate at which consumption is rising falls, net investment will decrease and this, combined with the multiplier, will bring about a fall in income, and thus a cumulative process of deflation will be initiated.

Now, a fall in consumption demand is likely to be caused by a fall in the propensity to consume. In the first table, we have implicitly assumed that the marginal propensity to consume and the multiplier remain unchanged in spite of the rise in income. But this is against the fundamental psychological law propounded by Mr. Keynes that a community's propensity to consume tends to decline with a rise in its income. Mr. Harrod also lays equal emphasis on this rising propensity to save with rising income. Combined with that, there is the inevitable shift to profit which accompanies an increase in output when such an increase is achieved at diminishing returns at the margin, and when the increase in income diminishes the elasticity of demand so that producers selling their output under conditions of imperfect competition are in a position to charge higher prices. The result is that with rising incomes, the amount which a community would like to save relatively to what it consumes, tends to increase and the multiplier tends to decline.

Can a steady advance be maintained if K declines? The proposition enunciated in the beginning is that for a

steady advance to be maintained, either K and R should both remain constant or if one changes, the other should change to an appropriate extent. Here it is proved that as the advance proceeds, K must fall; it then follows that R must also fall to the necessary level. To put it in plain language, as the amount of saving tends to increase in relation to consumption at a higher income, production must become more capitalistic, otherwise investment cannot be maintained, nor the income.

To put this to a numerical test, in the following table, K is supposed to be equal to 25 and R equal to 4 till stage t_3.

TABLE IV.

Steady Advance maintained in spite of a change in the marginal propensity to consume.

Period.	New investment.	Consumption increasing at the rate of $\frac{c}{C}$ C+c	Income Y=i+c+C	Relation $R=\frac{c}{C}$	Multiplier $K=\frac{Y}{i}$
t_1	5	100+20	125	4	25
t_2	6	120+24	150	4	25
t_3	7·2	144+28·8	180	4	25
t_4	8·64	172·80+24·56	216	4	25
t_5	10·368	207·36+41·472	259·20	4	25
.	.	.	.	.	.
t_4	*9*	172·80+34·20	216	*3·8*	*24*
t_5	*11·27*	207+40·93	259·20	*3·63*	*23*

Note the reduction in the multiplier in t_4 and t_5. The income continues to increase at the same rate as when the multiplier was constant, because the relation simultaneously falls to an appropriate extent. Note also the increase in net investment required to maintain the rate of progress.

If in t_4, K falls from 25 to 24, the expenditure on consumption goods at an income of 216 will be 207 and not 207·36; the increase in consumption above the previous level will be 34·20 instead of 24·56; and *if R is unchanged*, a net investment of $\frac{34 \cdot 20}{4}$ *i.e.*, 8·55 will be justified and not of 9 which is the amount of saving at that level of income (216—207 = 9). If net investment falls to this level, total income is not 216, but 207 + 8·55 = 215·55. Thus, there is a disappointment of expectations which initiates a cumulative deflation. If, however, R changes from 4 to 3·8, as it is shown to have changed in t_4, separately shown, then, of course, an increase in consumption by 34·20 will justify a net investment of 9 and the total income will be 207 + 9 = 216 and the steady rate of advance will be maintained. Mr. Harrod calls these three quantities, namely, diminishing propensity to consume, shift to profit (which acts on K) and the amount of capital per unit of output (which acts on R) as three dynamic determinants and unless the third changes to an appropriate extent when the first two change, a cyclical fluctuation is inevitable.

Now, by what *deus ex machina* is it that we can expect the relation to change just sufficiently to offset the effect of fall in the multiplier? We have already seen above that a fall in R which is the same thing as what Mr. Hawtrey calls "deepening" requires a fall in the rate of interest. So long as R is unchanged and an increase in investment is taking place as a result of widening instead of deepening, no change in the rate of interest is required (unless, of course, the intention is to restrict the advance). But when K changes and mere widening does not help, deepening must come into play. Mr. Harrod holds that for deepening to get a real stimulus, the fall in the rate of interest must be substantial. And, the necessary fall in the rate of interest must take place *at the proper time*. If it does not, a disappointment of expectations is inevitable and a recession will ensue and it is not much use reducing the rate, once a recession has gathered momentum.

Mr. Harrod is extremely sceptical about the response of investment to a change in the rate of interest. He would rather look to the technological improvements than to the

rate of interest to bring about a deepening of capital. But even here, there is a difficulty. True, the adoption of improvements is stimulated in times of rising output, and the greater abundance of capital goods may also cheapen them and help them to displace labour. In so far, however, as we have to depend upon inventions to bring about a deepening, there is no certainty. Mr. Harrod refers to Prof. Schumpeter's view regarding the irregularity of inventions.

It will, therefore, be a miracle, if after a boom, a recession could be avoided. It begins with a slackening of the rate of increase in consumption, involving an absolute fall in net investment; when consumption ceases to increase, net investment falls to zero. But output cannot remain at this bottom level indefinitely. Replacements of capital cannot be postponed beyond a certain time; and if aggregate replacements exceed the aggregate amounts which are being currently set aside by way of depreciation allowances, the excess is tantamount to net investment so far as the community as a whole is concerned, and income and output begin to rise. This is the revival. A revival thus started gathers a cumulative force with the help of the Relation and the Multiplier.

On such an analysis of the matter, industrial fluctuations appear to be inevitable. The source of the trouble lies within the system itself. So long as the marginal efficiency of capital and the liquidity preference depend on the individual's expectations regarding the future, the inducement to invest is bound to be an uncertain factor. When, again, there is no guarantee that the amount of capital per unit of output will change just when the income-earners become inclined to save more or less in relation to what they consume, investment must fluctuate and with it income and output.

Mr. Hawtrey does not accept this view[21] that the deepening process fails to fill the gap between savings and widening. He maintains that deepening never fails except in the event of a temporary glut of capital. In normal times there is always a pressure on the investment market

[21] *Capital and Employment.* pp. 316—20.

and the market keeps the new investment in check by direct methods. A relaxation of these methods can stimulate investment. Secondly, an increase in saving may lower the rate of interest and the fall in the rate will stimulate investment particularly in those capital goods the net yield of which is large in relation to the maintenance and depreciation charges. Keynes would say that an increase in saving on the part of some individuals will be offset by a decrease in saving on the part of others and there need not be a fall in the rate, unless the increased desire to save is accompanied by a decreased desire to hoard, or an increase in the quantity of money available for hoards.

In any case whether a chronic breakdown of investment is inevitable or not depends on our view as to (1) whether liquidity preference offers an obstacle to a fall in the rate of interest and (2) whether the deepening process fails. Both these are matters of opinion. It is possible to hold (following Mr. Hawtrey) that liquidity preference is an elastic thing, changing with variations in productivity and is not insusceptible to control by monetary authority if the latter persists in a policy of low rates. It is also possible to say that the deepening process never really fails except for a short while. On these views, a trade cycle is *not* inevitable, but on the alternative views it is inevitable.

It is also conceivable that fluctuations in investment may not be always in appropriate relation to the expected changes in consumption. This is mainly due to the imperfect divisibility of the instruments of production. As Robertson explains it in his *Banking Policy and the Price Level* (p. 35), "the underlying economic situation may justify an increase in productive capacity of 50 per cent; but technical considerations may impose a decision between 100 per cent and nothing. A railway company, for instance, must either double its track or not double it: it is of use to lay a third rail." When production is in the hands of several independent and competing producers, the possibility of such inappropriate fluctuations is very large. Although Mr. Harrod does not mention it, this is another factor which may accentuate the severity of fluctuations (by putting the Relation out of gear with the multiplier).

NOTES AND MEMORANDA

Dynamical Equilibrium With Two Alternative Uses

In applied mathematics and physics, the mathematical treatment of simplified pictures of situations occurring in real life, which in themselves are beyond the existing resources of mathematics, has long been familiar. Such pictures help us to visualise what really happens in the actual physical case. A similar treatment of economic problems is much less familiar.* The present paper discusses one such problem.

2. We consider fish caught in an isolated place and sold in a single town. We limit ourselves to one kind of fish and suppose that the fish consumers substitute fresh fish for cured fish and *vice versa* but are not satisfied with other alternatives. All that is necessary for the mathematical treatment is that transport charges should be invariant and that one product should be consumed at once while the substitute can be kept. We could, for instance, consider instead salt sold unpacked for the local market and packed for export. The method could be extended to a finite number of varieties of fish replaceable one with the other but it is essential that all fish of one variety should command the same price. We could, for instance, suppose the fish sold by weight and that larger fish command no premium over the smaller. It will be found that the cost of establishment per unit time depends mainly on the maximum quantity of fish with which it can deal. This is particularly true of isolated fishing centres, *e.g.*, Antarctic Whaling Expeditions, and hence our choice of an isolated place.

Let $C(n, t)$ be this cost where n is the maximum quantity of fish and let A_n be the corresponding capital outlay. We suppose that at time t, $a(t).dt$ is the quantity of fish available for catching and we denote by $a_n(t).dt$ the minimum of $a(t)$ and n which is the amount actually caught.

* Cf. Mathematical Analysis for Economists—R. G. D. Allen.

We deal first with the case of a monopolist.

Let $p_1(x, y, t)$ represent the price of fresh fish at time t, x being the quantity of fresh fish, and y the quantity of cured fish for sale at time t, and $p_2(x, y, t)$ that of cured fish at the same time. Let $q_1(x, t)$ and $q_2(x, t)$ represent the cost of transport and sale of x units of fresh fish, and of curing, transport and sale of x units of cured fish respectively at time t. Suppose the interest rate is $100r$ (computed continuously) the period of curing c, and that the cured fish keeps indefinitely while the fresh fish has to be marketed at once and cannot be stored. Suppose at time t, in a short interval dt, $x(t).\ dt$ is sold fresh; 'dt' may be a day or the time taken on a single fishing expedition, or we may alternatively suppose the catch distributed linearly over the period between the landing of two consecutive catches. We neglect the time spent on transport and sale.

Suppose $y(t).\ dt$ units of cured fish are sold. The income is $\{x(t).\ p_1(x, y, t)+y(t).\ p_2(x, y, t)\}\ .\ dt$, and the discounted value of this income stream is $\int_o^\infty \{x(t).p_1(x, y, t)$ $+y(t).p_2(x, y, t)\}e^{-rt}dt$, where of course $y=o$ from $t=o$ to $t=c$. This integral will be convergent (even absolutely) if the x, y p_1, p_2 are of the order of finite powers of t. The discounted cost would be

$$A_n+\int_o^\infty [(C(n, t)+q_1(x, t)+q_2\{a_n(t)-x, t\}]e^{-rt}dt.$$

Similar considerations apply to the convergence of this integral. The discounted profit is the difference of the two integrals. The y and the x are not independent, for the amount of cured fish sold must equal the amount cured, *i.e.*,

$$\int_o^\infty y(t)dt=\int_o^\infty\{a_n(t)-x\}dt \qquad \ldots\ldots\ (A)$$

assuming that both these integrals exist. We also assume the substitution function

$$f\{p_1(x, y, t), p_2(x, y, t), x, y\}=O \ldots\ldots\ldots\ldots (B)$$

A necessary condition for this is that $y \to o$ as $t \to \infty$ and $x \to a_n$ (∞), which supplies one of the 'boundary conditions.' A further condition is imposed by the fact that y is non-negative. This could be expressed by the relation

$$\int_o^t y(t).dt < \int_o^{t-c} \{ a_n(t) - x \}.dt \ldots\ldots\ldots\ldots\ldots (1)$$

The monopolist can choose the n, x, y, subject to the relation (A) to make the discounted value of his profit a maximum. Keeping n constant, we could determine by the methods of the Calculus of Variations, the non-negative x and y which would make this a maximum subject to (A) and (B). This would be expressed as a function of n. We next determine the n which maximises this. The initial condition $y\ (o) = o$ will give another boundary condition. For the solution to be admissible, it must satisfy the requisite convergence conditions and (1). If infinite integration is considered unsuitable to a 'real life' problem a finite range could be considered instead though at the expense of some untidiness at the upper limit.

3. We next attempt to allow for the deterioration of the cured product. We suppose at time s after the start of the curing process a price $l(s)$ of that of the freshly cured product. We suppose that this also allows for the cost of storage. After a certain period b, any unsold product becomes unsaleable and we suppose the monopolist destroys it at this stage without extra cost. It cannot be assumed without further examination that the monopolist would not allow this to happen. $l(s)$ is thus 1 when $s = c$ and O when s is b. We require further information regarding the market. Let us suppose known the quantity $z.dt$ sold in a short interval dt at time t at price lp_2. This will be a function involving x, t, l, p_1, and p_2, and takes the place of equation (B). The income from the sale of this cured fish in time dt is:—

$$\mathrm{dt} \int_{t-b}^{t-c} zlp_2 ds$$

and the total discounted income from the sale of cured fish

$$\int_{o}^{\infty} e^{-rt}\, dt \int_{t-b}^{t-e} z\, l\, p_2\, ds.$$

Cured fish which becomes unsaleable is included in the z corresponding to $l=O$. Our solution will have to make this integral converge. The income from fresh fish is not modified, formally at least. The amount of fish cured in an interval $t,\ t+dt$ is $dt\{a_0(t)-x(t)\}$. This comes on the market between $t+c$ and $t+b+dt$. The amount of cured fish sold is $\int_{t+c}^{t+b} z.ds$ The variation of this in a small interval dt must equal the fish cured in the interval. This means that equation (A) is replaced by the equation

$$a_0(t)-x(t)=\frac{d}{dt}\int_{t+c}^{t+b} z.\, ds \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots(C)$$

The same procedure can now be followed.

An alternative method would be to consider that the cured fish passed in a finite number of stages from the best quality to the unsaleable and to assume separate supply and demand functions for each stage and a substitution function connecting the prices and quantities sold of these and of fresh fish.

4. We now consider the other limiting case where the industry consists of several independent traders none of whom individually can influence prices. In real life, of course, the situation is intermediate between these two extremes. We adopt the same notation as before. Since the quantity of cured fish sold by any one trader is not supposed to affect the market, we may suppose at once that none of it is thrown away. We deal at once with the case of a deteriorating product and introduce the function $l(s)$, 1 at time c and O at time b from the time of catching. The income from the sale of fresh fish in time dt would be $x.\ p_1(t).\ dt$ and that from cured fish would be

$$dt\int_{t-b}^{t-c} p_2\,(t).\ l\ (s).\ z.\ ds$$

The form of income and expenditure, therefore, is not affected but p_1 and p_2 would depend only on t. Equation (C) remains.

5. We now turn to a problem of a different kind. We suppose the above equations solved and we wish to estimate the effects of a reduction in the price of, say, salt which is used in curing. Suppose the old price was m_1 and the new price m_2. Our n, x, y could be expressed as functions of the different variables which determine the state of affairs. Let us suppose all these remain the same except the price of salt. If the n, x and y do not involve t we have only to calculate

$$\int_{m_2}^{m_1} \frac{\partial n}{\partial m}\, dm, \int_{m_2}^{m_1} \frac{\partial x}{\partial m}\,.\, dm. \text{ and } \int_{m_2}^{m_1} \frac{\partial y}{\partial m}\,.\, dm.$$

It will be seen that the increase in cured fish may arise in two ways, firstly from an increase in the total amount caught and secondly, by an increase of cured fish at the expense of fish sold fresh. The process will no longer be applicable if the n, x and y involve the time coordinate. A particularly simple case arises when the n, x and y are linear functionals* of m (the m may in this case involve time). If we denote the new quantities by "dashed" letters we will have

$$x' - x = x(m_1 - m_2),\ y' - y = y(m_1 - m_2)$$

As an illustration let us suppose the lineer functional is

$$x(t) = \int_0^{\infty} k(t, s).\ m(s).\ ds$$

Then $x'(t) - x(t) = \int_0^{\infty} k(t, s)\ \{m_2(s) - m_1(s)\}.\ ds$

Colombo. H. E. PERIES.

* Cf. Theorie des Operations Lineaires—S. Banach.

A Note on the Working of the Bombay Industrial Disputes Act

It is regrettable to observe that in an otherwise admirable account of the Bombay Industrial Disputes Act by Mr. N. H. Pardasani which appeared in the July issue of the *Indian Journal of Economics* certain inaccuracies have crept in which have considerably vitiated the author's critical estimate of the probable effects of this legislation.

It appears that Mr. Pardasani has not at all grasped the full scope of the conciliation proceedings provided under the Act; for he makes the amazing statement that at least for six months after the standing orders are settled there can be no question of change and thereafter there would be no strikes during the pendency of conciliation proceedings and consequently deduces that "considering that the settlement of standing order will take quite a few months, for nearly an year and a half, if not more, the Bombay Cotton Textile and Silk Industries can confidently look forward to Industrial Peace." (Page 56.) Readers are no doubt aware that the Industrial Peace, which Mr. Pardasani so confidently and it appears so rashly predicted, has been disturbed by a major strike in Bombay and by minor disturbances in the other textile centres, and was only preserved at Ahmedabad by invoking at the last minute the arbitration of the Industrial Court. A reference to page 51 of the article would, however, show that the Prophet was ill-equipped to look into the future and lull the cotton textile and silk industries into the security of a long peace; for he was apparently under the impression that the procedure of conciliation applies only to demands for changes in standing orders. That, however, is not the case as a reference to Section 28 of the Act would have convinced him. Standing Orders cover only certain industrial matters regulating the relations between employers and employees mentioned in Schedule I of the Act, such as attendance and late coming, conditions, procedure and authority to grant leave, and holidays, acts or omissions which are to be treated as misconduct, etc. These are routine matters which can be brought within the framework

of regular standing orders, and generally matters which to maintain the discipline in industrial establishments, require to be immediately dealt with by the management. Section 26 subsection (8) of the Act specifically lays down that the Standing Orders settled by the Commissioner of Labour or by the Industrial Court shall be *determinative of the relations between the employer and his employees in the industrial occupation concerned in regard to all industrial matters mentioned in Schedule I* and Standing Order No. 24 provides that the decision of the Manager upon any question arising out of, in connection with, or incidental to these orders shall be final, subject however, to appeal to the Managing Agents. It would appear, therefore, that it was not the intention of the framers of the Act that industrial disputes arising out of complaints for which Standing Orders provide a specific procedure, as for instance, cases of summary dismissal for misconduct under Standing Order 22 or of termination of service of workers by giving a due notice of 14 days under Standing Order No. 19, should be the subject-matter of conciliation proceedings. Conciliation cases of this kind have, however, been reported possibly because of the wide connotation given in the Act to the term industrial matter, for any of which conciliation proceedings could be resorted to by the employees but not by the employers (Ref. sub-sections (1) and (2) Section 28 reproduced below,)* and possibly also because of the fact that there is no authority or tribunal provided under the Act to exercise appellate powers over the conciliators.

* "(1) Any employer intending to effect any change in any Standing Order settled under Section 26 or 27 or in respect of an industrial matter mentioned in Schedule II shall give notice of such intention in the prescribed form to the representative of the employees. He shall send a copy of such notice to the Commissioner of Labour, the Chief Conciliator, the Registrar, the Labour Officer and to such other person as may be prescribed. He shall also affix a copy of such notice at a conspicuous place in the premises where the employees affected by the change are employed for work, and at such other place as may be directed by the Chief Conciliator in any case.

"(2) An employee desiring a change in any such Standing Order or in respect of any other industrial matter shall give notice

What Mr. Pardasani refers to as the central principle in the Bombay Industrial Disputes Act, *viz.*, compulsory conciliation, is thus not only applicable to demands for changes of the Standing Orders themselves but also in respect of other industrial matters. Demands for changes under the Standing Orders themselves are, however, to be distinguished from demands or disputes arising out of matters for which the Standing Orders have already prescribed a specific procedure. A demand for, say, a notice of two months instead of one month for discontinuance of a shift working, as provided under the present Standing Orders would be a case of the former kind, while a demand for re-employment of a worker dismissed for misconduct under Standing Order (No. 22) would come under the latter category. As has been pointed out by Mr. Pardasani the Standing Orders settled by the Industrial Court shall not be liable to be altered for a period of six months from the date on which they came into operation; and conciliation proceedings would be necessary after that period for effecting changes in the Standing Orders, provided of course the parties do not reach an agreement in the first instance. These provisions, however, have not prevented either the employers or employees from demanding within the six months' time changes in other industrial matters, particularly in respect of those items mentioned in Schedule II of the Act, which cover such matters as changes in wages, hours of work, rationalisation, etc., etc. It will be noticed that these are matters affecting conditions of employment, as distinct from matters arising out of individual contract of employment between employers and employees, within the framework of a given set of conditions of employment, which latter are sought to be included in Standing Orders and should not, as pointed out above, really form subject-matter of conciliation proceedings, but should be tackled, if necessary, by Labour Courts or some such Judicial Machinery.

in the form prescribed to the employer through the representative of the empyoyees who shall also forward a copy of the notice to the Commissioner of labour, the Chief Conciliator, the Registrar, the Labour Office and to such other person as may be prescribed."

It is not proposed in this note to assess the merits and demerits of the legislation in preserving industrial peace or in safe-guarding the rights and liberties of the workers for that would need a separate article for itself and perhaps it is rather early to even make such an attempt. Compulsory conciliation proceedings have not brought with it the assurance of Industrial Peace which many expected they would, and while the number of agreements reached by conciliation which could be cited is substantial, they are, in main, concerning points of minor importance, as re-instatement of a worker or two, small reductions in the number of workers employed or raising of rates of wages in certain departments.

Two major industrial disputes, *viz.*, demands for Dearness Allowance, due to the rise in the cost of living as a consequence of European War, in Bombay and Ahmedabad, were tackled by the compulsory conciliation machinery provided under the Act, and in both, it must be admitted, the results were not quite encouraging. Time for cooling down the emotional urge for strikes and lock-outs which it was the declared objective of the Act, and the conciliation proceedings under it, to provide has not apparently been effective enough for the purpose, and failure of conciliation proceedings in Bombay was closely followed by the failure of the general strike of the workers in that great industrial city. In Ahmedabad, the failure of conciliation proceedings was followed by the declaration of the workers of their intention to resort to a general strike. The situation was only saved by resorting to the method of arbitration which had almost become the traditional method of settling industrial disputes at that centre. It is doubtful, whether the results in both centres would have been different, even if the Bombay Industrial Disputes Act had not come into force.

Agreement appears, however, to be almost unanimous that the Act in its actual operation has shown very clearly traces of the desperate hurry in which it was both conceived and brought out. The 'Industrial Dispute' means, for instance, according to Sec. 3 subsection 13 any dispute or difference between an employer and employee, or between employers and employees, or between employees and

employers and which is connected with any industrial matter, but not curiously enough disputes between an employer and some or all of his employees. Apart from such verbal changes, however, there does seem to be a case for effecting alterations in the structure of the Act.

The scope of conciliation proceedings would have, for instance, to be considerably circumscribed, as otherwise besides giving an annoyance, worry and work to the much harassed conciliators concerned, they would have no value at all. Prof. Lokanathan has rightly stressed that the whole machinery of conciliation should not be moved in respect of small complaints in individual industrial units, as after all the workers would be ill-advised to resort to a strike which is the only weapon open to them in the event of failure of conciliation proceedings, to redress grievances of this kind. It will be foolish, although it has been done, to go to conciliation for getting an improvement in the dining shed of a mill, for instance; with a moderate goodwill, the matter could easily be settled within the mill between the employer and employees concerned. It is also equally difficult to understand what possible use conciliation proceedings could be if the industrial change desired is the closing down of a unit entirely for the ultimate result could not be anything other than the closing down of the unit by a legal strike or lockout; and yet this *reductum ad absurdum* has been forced at least on one or two industrial units. How far conciliation proceedings are conducive to a settlement, when the alternative on the side of workers is a strike, the prospects for a successful prosecution of which is, given the present organisation of workers, to say the least, very remote, is another question as also the effect of the legislation which provides regimentation of all workers under certain 'recognised Trade Unions' in fostering working class movements, into both of which it is not proposed to enter now.

C. B. KUMAR.

PUNJAB ECONOMIC PROBLEMS

PROVINCIAL BOARD'S ESSAY COMPETITION

With a view of encouraging research into economic problems, the **Punjab Board of Economic Inquiry** is offering a number of prizes for original essays dealing with topical subjects of economic importance to the Province.

The competition will be in two parts, (1) Result of personal field investigation, and (2) Articles based on published material such as is found in Government reports and more particularly in the publications of the Board. Competitors may try for either or both parts but the essays should not have appeared before in any magazine or proceedigs, etc. The Board may, if they wish, publish any of the prize-winning or accepted essays which will become the property of the Board.

The essays should not exceed 20 typed foolscap pages (doublespaced) for Part I and ten pages for Part II, although some allowance will be made for the former if the subject is of special interest and value.

The last date of entry is 31st October, 1941, and the prizes offered are as follows:—

		Part I.	**Part. II.**
		Rs.	Rs.
First prize	...	50	20
Second prize	...	25	15
Third prize	...	15	10
Accepted essays	...	5	5

The competition is open to all, whether resident in the Punjab or elsewhere, and entries should be addressed to the Secretary, 41, Lytton Road, Lahore.

the peaceful solution of economic, social and territorial problems, with special reference to questions of: (i) population, migration and colonization; and (ii) markets and distribution of raw materials.' It is publihed in pursuance of a recommendation made by an Editorial Board appointed by the Conference and composed of Professor Maurice Bourquin, General Rapporteur on the Conference's study, Mr. Malcolm W. Davis and Professor Etienne Dennery. The first volume in the series, issued in 1938, contains a record of discussions on Peaceful Change which took place at a session of the International Studies Conference held in Paris in the summer of 1937, together with introductory reports giving synoptic statements or material previously assembled by the Conference.

Unfortunately, the war broke out soon after this book was published and thus frustrated the noble purpose with which it was written. The "Have-not" powers scorned 'peaceful change' and have imposed on the world a most atrocious war, which if not concluded at an early date will ruin not merely the vanquished but the victors as well. The valuable statistical and factual data collected in this book have now only a historical value. It contains a detailed account of the colonial problem, as it was in 1935—39, and the general principles enunciated in it regarding the advantages of colonies to the mother country, and the methods of using colonies will be found instructive so long as colonies exist in some form. The book also deals with the efforts made by the people of the colonial territories to attain self-government, as also the attempts made by the colonial powers to give political education to the colonial peoples. In the British and French colonies, much has been done to raise the status of the local inhabitants by education, by co-operative societies, by local self-government institutions and by the participation of the local people in the colonial legislatures. But the progress has been slow, not merely because of the incapacity of the 'natives' to benefit by the education imparted, but because of the natural disinclination of the European settlers ('colonials') to part with power. However, it is well to add that if totalitarian powers come to acquire these possessions, the progress of the colonial peoples will be 'from the frying pan to the fire.' Really, man treats man much more mercilessly than the wild animals! !

P. J. Thomas.

Das Existenzminimum in Deutschland, by J. Rosan. Published by Verlag Oprecht Zurich. 1939. Pp. 90.

This is a Swiss study of budgets of unemployed families in Berlin. It was completed in 1934 but for various reasons could not be published till five years later. The investigator took some

ninety families of unemployed workers of a fairly representative and homogeneous character and collected information about their expenditure and income with the help of a detailed questionnaire. The families were grouped according to their composition and nature of income. The study gives a number of tables showing in detail how heads of expenditure and sources of income work out and states the conclusions drawn from the various sets of figures. It is stated, for instance, that two-thirds of the expenses are on necessaries and that there is a tendency towards uniformity among the families in this respect in direct relation to the size of expenditure and income. "The smaller the income and the expense, the geater is the degree of uniformity in consumption." The results of the investigation are compared with those of an official enquiry into the budgets of state employees made seven years earlier and it is found that the standard of living of the working classes has decidedly gone down owing to the economic depression. Expenditure of families is also compared with that incurred by the State on the population of prisons and the same conclusion is confirmed. *viz.*, under-nourishment of the working classes. Assistance from public funds and from social insurance schemes does not appear to be adequate to the requirements of the minimum of subsistence. As the shadows of the depression thicken. the situation becomes worse.

Here the question is raised—Is there a subsistence minimum below which the standard of living cannot sink? Opinions have differed as regards the determination of the minimum and it has varied from time to time and community to community, the physiological test not being conclusive. The author does not agree with Dr. Schact in the view that 'the standard of living of a whole people cannot. for long. remain lowered' and is inclined to hold with Dr. Lehmann that "it is possible to lower the standard of living of a people to any depths, only the process has to be slow enough." According to the author, there is no absolute lower limit for existence minimum for a people (other case of individuals is different) as there is no upper limit also. He quotes opposite views on this point, for instance, those of Oswald Spengler who complains that labour already enjoys a living that is undeserved and unearned and that there is no room or justification for improvement in it. There is the other views, *viz.*, that restriction of wants and the communistic ideology are calculated to prove harmful to civilization and progress. Our author believes that there is in this matter, danger to culture and humanity from whatever ideology it may proceed. He concludes that history has yet to demonstrate whether humanity will go back to barbarism or will construct a new civilization and a new culture.

V. G. K

BUSINESS CYCLES IN THE UNITED STATES OF AMERICA, 1919—32, by J. Tinbergen. Published by League of Nations, Geneva. 1939. Pp. 244. Price 5s.

The above is the third of the series of handbooks published by the League of Nations on Business Cycle,—a subject which, if one may say so, had been befogged with too much writing. The first was Prof. Haberler's *Prosperity and Depression*, which gave a searching analysis of most of the current theories including Keynes's contribution in his *General Theory of Employment, Interest and Money* and attempted a comprehensive synthesis. The second was Prof. Tinbergen's first volume of *Statistical Testing of Business Cycle Theories*, in which he suggested the method of multiple correlation analysis in order "to submit to statistical test some of the theories which have been put forward regarding the character and causes of cyclical fluctuation in business activity" (p. 11). In the volume under review, Prof. Tinbergen applies the technique developed in his previous book to the economic data from the U.S.A. during the years 1919 to 1932.

Before we consider such application it may be desirable to give a brief and general account of the technique in question. It is first of all necessary to isolate the relevant variables in a particular business cycle and to determine their mutual interrelations. The next problem is to test any current theory by scrutinising the main features of the cycle in the light of the relations found out.

Various difficulties crop up in respect of both these stages. So far as the first is concerned the process is mostly a trial and error method, and consists in finding out whether the correlation improves with or without the inclusion of a particular variable. There are besides the practical difficulties of determining the appropriate lag between the several variables,—again by trial and error. As the data are mostly annual, the accurate determination of lags is beset with very great difficulties and Prof. Tinbergen must be complimented on the patience and industry displayed in his monumental work.

With regard to the second problem of testing different theories of the business cycle, the following among other conclusions are drawn from a study of the economic history of the United States of America (1919—32) (p. 184):—

(*a*) the influence of interest rates, in the restricted sense of discount rates and other short-term rates, on goods is found to have been very small.

(*b*) the influence of long-term rates on investment activity in durable goods is found to have been very moderate, the influence of profits and, in the case of residential building, of the shortage and abundance of houses being much more pronounced.

(c) Although statistics are incomplete it is nevertheless probable that movements in commodity stocks were dependent only in a small degree on interest rates.

Some of these conclusions run counter to widely prevalent notions about the business cycle. It is no wonder therefore that Prof. Tinbergen's methods have aroused keen controversies among economists. Keynes has gone so far as to compare these methods to the methods of black art and alchemy (*Economic Journal*, March, 1940). But the obvious fact is overlooked that alchemy is a necessary prelude to chemistry, and the transition from the first to the second is not always clear and sharp.

It would be more to the point to discuss the possible risks and dangers in the application of the method of multiple correlation analysis to economic data and to see whether we may do without the method in question. Let us consider the simple case of deriving a demand curve from the statistics of prices and of quantities demanded. These observations are not simultaneous. When graphically represented, we get in fact the points of intersection of successive demand curves with the corresponding supply curves during the entire period under consideration. We cannot therefore assume that they will trace out a single demand curve. unless we are satisfied that the demand curve has not changed its form during the period under consideration, and we have in fact obtained the several points of intersection of that demand curve by successive supply curves. This raises complex issues about shifts in demand, which may arise if (a) the number of consumers has changed; (b) their tastes and preferences have changed; (c) their incomes have changed; or (d) the prices of other goods have changed. We may allow for such shifts only if we include them in some manner or other in our multiple correlation analysis. A sceptic will probably smile sardonically and murmur out:

"Double, double toil and trouble:
Fire burn and cauldron bubble."

But a prosaic econometrician will ask wherein exactly the supposed defects in his methods lie.

Two criticisms may be justly levelled against Prof. Tinbergen: (a) his inconsistency in including 't' in some of his equations whereas, excluding it in others; (b) his silence about the "significance" of the various coefficients obtained by him. But these do not detract from the value of a work of such high merit. for Prof. Tinbergen is on all hands a foeman worthy even of Keynes's steel

H. SINHA.

MODERN BANKING IN INDIA, by S. K. Muranjan. Published by Messrs New Book Co., Bombay. 1940. Pp. 122. Price Rs. 7-8-0.

This book is a brilliant effort by Prof. Muranjan to study the Indian Banking System in the light of recent theory. The book contains a detailed study of the Reserve Bank of India, the various Joint-Stock banks, the problem of bank failures, and the trends in the Indian money and capital markets. The third chapter of the book offers us a highly interesting and original study of the structure of interest rates in India. This chapter contains a statistical study of the connection between short- and long-term rates of interest in the Indian Money Market. We are told that call money rates move generally in sympathy with the rate for demand loans. They are apt to rise very high and on occasions equal it even. In the busy season, call money is sometimes unavailable at any rate while in the slack season call money rate falls below short deposit rates, losing all touch with the Imperial Bank rate, for demand loans. But there is no precise definiteness about their interrelation such as exists in the advanced money markets of the world; the only relationship which exists between different money rates in India is such as arises out of basic economic facts like seasonal variations in demand and general shortage of capital: and this causes much difficulty in credit control in our country.

Prof. Muranjan concludes that in India the short-term rate of interest has been higher than the long-term rate except in 1891-92, 1921-22, and in the years following the crisis of 1929-30. In the U. K., on the other hand, the short-term rate is generally lower than the long-term rate of interest. This difference on which Prof. Muranjan places great emphasis is probably not as important as he would have us believe. This for two reasons. In the first place, the yield on the 3½ per cent government security has been taken as the long-term rate and this has been compared with the average bank rate. There is no justification, and Prof. Muranjan does not seem to be unaware of it, to take the field on 3½% government security as representative of the long-term rate of interest. It is true we do not have any reliable figures of the long-term rate in India, but it is a great violation to substitute for it something which is very different. Secondly, the implication to which the difference naturally leads that the money market in India as compared to the capital market has drawn to itself a smaller proportion of the national savings than demand for funds would justify is not correct.

It will be remembered that the Banking Inquiry Committee (1931) suggested means to develop the Indian Bill-Market. Prof. Muranjan is of opinion that on account of the extension in branch-banking and a greater use of overdrafts, the seasonal nature of funds in the Indian money market, and the changing character of

trade finance the Indian bill-market does not have a bright future. The past experience probably supports this contention, but there is no reason why we should not be able to develop a bill-market in our country if a deliberate effort is made by the Reserve Bank of India. It should here be mentioned that a well-developed bill-market is of fundamental importance to the economic structure of a country.

Prof. Muranjan rightly emphasises that the effectiveness of the discount rate policy of the Reserve Bank of India is reduced because of two factors. The joint-stock banks have funds on a scale which makes them virtually independent of outside assistance. "The bills portfolio of our scheduled banks has been on the average 3, 4, 6, and 5 crores for the four years 1935-36 to 1938-39. With these figures may be compared the aggregate reserves of the scheduled banks, cash on hand, and the balance at the Reserve Bank. These amounted in aforesaid years to about 38, 32, 25, and 22 crores. Even allowing for the low value of bills and high levels of reserves caused by economic stagnation, it is clear that rediscount as a means of credit control has only a limited significance for India" (page 267). Secondly, in India the interest rates in different parts of the country show wide disparities and a uniform minimum rate such as the Reserve Bank has maintained in the last few years must prove in times of less abundant money either too high for certain areas or too low for certain other areas. This reduces its effectiveness in controlling credit conditions. In this connection, a few suggestions contained in Mr. R. S. Sayers' book *'Modern Banking'*, 1938 (especially, pp. 283—303) indicate some possible remedies.

A greater attention could have been paid to proof-correcting, index making, and compilation of statistical information in such a useful and interesting book. The writing on the graphs is so small that the naked eye cannot read it and not every student of banking can manage to carry a microscope in his pocket. In the table on page 11 the Life Assurance Funds for 1930 are quoted correctly but for 1936 the figure should be 4795 lakhs (Statistical Abstract, 1937-38, page 425) and not 4029 lakhs as quoted in the book. In the footnotes on the same page (page 11) we should be referred for a further study of gold exports and imports to pp. 395—97 and not to pp. 403—406. The figures for the paid-up capital of joint-stock companies for 1919-20 in the table on page 50 should be 123 crores and not 122 crores; the figure for 1921-22 should be 230·5 crores and not 227 crores (Report on Joint-Stock Companies in British India, etc., 1934-35 page 3). Two more points need here be mentioned. It gives a definitely wrong impression to put 285·9 crores in round figures as 285 crores especially when 285·2 is also expressed as 285. Secondly, there is no justification for including Burma in some figures and for excluding it from some other

figures. This gives a very incorrect perspective. The author has made very important and interesting remarks about the trends of investment in stocks and shares of joint-stock companies but no mention has been made in the index of the relevant pages where this problem has been discussed. We are referred to a banking map of India in the pocket at the end. but unfortunately the pocket is empty.

P. C. JAIN.

THE CO-OPERATIVE MOVEMENT IN BENGAL, by J. P. Niyogi. Published by Messrs Macmillan & Co., London. 1940. Pp. 267. Price 10s. 6d. *net.*

Dr. Niyogi observes in the Preface "The purpose of this book is to throw light on the working of co-operative credit and marketing societies in Bengal, so as to prepare the way for more enlightened plans for improving agricultural credit facilities." The purpose outlined in the Preface is thoroughly maintained in the eight chapters into which the book is divided. But it hardly harmonises with the title of the book which leads one to think that it is a book which deals with all the aspects of co-operative movement in Bengal. But that after all is a minor matter.

The two aspects of the co-operative movement, *viz.*. credit and marketing, have been dealt exhaustively and judiciously. His exposition of the subject is lucid and in practically all cases he has compared things in Bengal with other Provinces in India, as well as with what is met with in foreign countries. All this indicates that Dr. Niyogi is perfectly at home with his subject.

Taken as a whole the criticisms that Dr. Niyogi has offered and the constructive suggestions made by him appear to be well-reasoned and sound. But it is difficult to agree with him when he shows a bias against multiple-purposes form of co-operative society. Not that he is against combining more than one purpose in the same society. He is in favour of combining credit and marketing, but be would have two distinct organisations for short-term and long-term credits and that right from the primary to the provincial society. Economy in men, money and time that is likely to be secured if a number of objectives are joined together in one and the same society with separate department for each, if need be, does not appeal to him. Nor does he give any thought to the fact that in the present state of educational advance in our country it is not quite easy to find suitable men to work as directors and managers if a multiplicity of societies is brought into existence.

Dr. Niyogi brings it to our notice that the usual period of repayment in our co-operative mortgage banks in India is from 10 to 20 years, whereas in most of the European countries it ranges from 25 to 75 years. He is not in agreement with those who ascribe

the heavy overdues, so characteristic of co-operative credit societies in practically all the Provinces to the comparatively short period of repayment, and recommend that we in India also should extend the period of repayment of long-term loans to 25 to 40 years. It is true that India has her own problems which are not in all essentials the same as similar problems in foreign countries, and yet there could not be much against the commonsense principle that an advance for a permanent improvement or for the purchase of expensive agricultural capital or for the redemption of land should be recovered in instalments spread over the average length of life of the improvement or capital goods purchased, or in the case of land in two to three generations. To try to recover in ten or fifteen years a few thousands given for these objects is to ask the borrowers to do the impossible. The peculiar features that in Dr. Niyogi's opinion justify a shorter period of repayment in India, do not appear to us to be so strong as he thinks them to be. But that ts a matter of opinion. and we can always agree to differ.

Dr. Niyogi has rendered the people of Bengal in particular and the students of Co-operaive Movement in India in general a valuable service for which he deserves our sincere thanks. We commend his book as a valuable and dependable contribution to the literature on co-operation in India.

B. G. BHATNAGAR.

SCIENCE OF ECONOMICS,* by I. M. Kapoor. Published by the English Book Depot. Lahore. 1940. Pp. 120. Price Rs. 1-12-0.

The study of economic theory is slowly but steadily gaining ground in India, as we are emerging from the stage of mere description and collection of economic data. Mr. Kapoor's book will be found to be a welcome work in this line.

Mr. Kapoor first discusses the subject-matter of Economics in the form of a historical survey. and then defines Economics and explains its nature. The scope, laws and methods next come in order, to be followed by the discussion of the Importance of Economics and the Present-Day Economic Organisation of Society. The book has a *Foreword* from Dr. Hugh Dalton.

This book is not an original contribution to the subject but merely an exposition of the existing views picked up in accordance with their appeal to the author. It is the 'method of approach' where the author has tried to bring in novelty. Though he is not enamoured of simplicity of exposition—indeed, he thinks that "in most cases, (it) can be attained only at the cost of sound thinking" —simplicity and lucidity of style are the principal attributes of

the present work. The book is sure to make its appeal to the students of the B.A. and M.A. students of our Universities.

The book means to deal with "the fundamentals of the science of Economics", but, like many other similar works, it says nothing on the subject of the correct interpretation of such elementary terms as 'science', 'art', etc.—the terms tacitly assumed to be unworthy of the attention of economists who, more often than not, disagree in their agreement on that account. The author interprets the word 'scope' as follows: "Under scope . . . we shall show the relation of Economics with other sciences and *thus* indicate the particular field covered by Economics as distinguished from the field covered by other sciences." It is difficult to imagine how can the scope of Economics be made clear *merely* by indicating its relation to other sciences. J. N. Keynes, from whom the author quotes in plenty though not on this point, thinks that the scope connotes (1) the subject-matter of the science, (2) the nature of the study and (3) its relation to other sciences. The first two points, in fact, constitute the staple and essence of the term 'scope', the third point being of subsidiary importance, to be used only in so far as it clarifies the foregoing points. Some significant topics, *e.g.*, the inter-personal comparison of utility and the social nature of Economics, have been summarily dismissed.

Mr. Kapoor makes Professor Robbins play the second fiddle—almost a mere nothing—in his book. The recent controversy on the definition and scope of Economics was, as is well-known, given a start by Prof. Robbins's *Nature and Significance*, as also by Mrs. Barbara Wooton's *Lament for Economics*. In fact, a discussion on these points inevitably becomes a discussion of Professor Robbins's views. As such, the deterioration of Robbins to footnote position does not create a favourable impression.

However, to assess the value of the book from criticisms of the above nature will be a harsh judgment, indeed. These are the matters not only of facts but also of opinion. The book is on the whole interesting and thought-provoking; and Mr. Kapoor is to be congratulated on its publication.

AMAR NARAIN AGARWALA.

FINANCE UNDER PROVINCIAL AUTONOMY, by C. N. Vakil and M. H. Patel. Published by Messrs Longmans Green & Co. Bombay. 1940. Pp. 200. Price Rs. 4.

Many books have not been written on Indian Public Finance as yet, and there is good scope for the growth of economic literature in this direction. So far as recent developments go, Professor P. J. Thomas's *Growth of Federal Finance in India* is the only notable contribution to this branch of Economics. The publication of the book under review, which is meant to bring Professor

Vakil's well-known book, *Financial Developments in Modern India (1860—1924)*, up-to-date, is therefore very timely and welcome.

The present book deals with Provincial Finance under the New Constitution. It discusses not only the constitutional provisions but also the actual working of the Provincial Finance under the Constitution. The authors first trace the history of the evolution of Provincial Finance, and then proceed to discuss the *rôle* the State has been playing in the economic life of this country since 19th century. Then follows an excellent examination of the expenditure, revenue and debts of provinces, while a short peep into the future brings the survey to a logical conclusion. In the *Appendices* light has been thrown on the Sales Tax and the financial arrangements for 1940-41. A number of valuable statistical tables have also been given.

The authors have very ably handled the mass of scattered material on Provincial Finance since the inauguration of Provincial Autonomy: and have creditably condensed it to the small compass of the present book. The presentation is characterised with broad generalisations which possess all the derived qualities of simplicity, lucidity and logical charm. A larger element of critical study, however, would have removed what the reader might regard as a deficiency of the book. The authors have looked at the whole problem from a national angle of vision, with socialistic sympathies of a liberal character, which is in tune with the spirit of modern India, including Indian economists. Frequent repetition of ideas, though useful to the new entrants into the subject, may appear boring to specialists and could be pruned without injuring the usefulness of the book. A close intimacy between the accepted theories of Pure Economics and Applied Economics, in so far as they are germane to the subject in hand, has been maintained throughout the book in a very refreshing manner. It is hoped the book will be well received by the public, economists and general readers alike.

A. N. AGARWALA.

INDUSTRIAL PROTECTION IN INDIA, by K. P. Khara. Published by Messrs D. B. Taraporevala Sons & Co., Bombay. 1939. Pp. 371. Price Rs. 7.

This publication is a very opportune one, particularly, as the question of National Planning of Industries is receiving the earnest attention of Officials as well as Non-officials at the present time. True, the outbreak of the European war has caused a considerable disturbance, but still as Planning is meant for the future and covers a period of years, it is important that reliable material helpful to planning should be available,

Mr. Khara's treatise is a wellcome addition to the available literature on the subject and written scientifically and without bias as it is, it furnishes considerable help to those who devote their attention to this important question.

He has subjected to a very critical examination the question of Industrial Protection and has shown with considerable ability how protection is suitable to Indian conditions. He has narrated with care the history of events leading to the appointment of the Fiscal Commission, Industrial Commission and ultimately the Tariff Boards for enqu'ring into the various industries of the country. He has also made useful suggestions regarding the character of the Tariff Boards, their duties, functions, etc.

A succinct account of the recommendations of the various Tariff Boards has been given with the author's comments at various places.

I have no doubt that the book will be found of considerable use by students of Indian Universities who find in one place a lot of relevent material about Indian Industries . . . material which they would not find easily accessible elsewhere in one volume.

Mr. Khara's views will find general favour with Indian public opinion in the country and as Sir Purshotamdas Thakurdas has observed in his foreword, this compilation will be an useful one to any student of Indian Economic Structure.

The value of the book would have been enhanced if there had been an index attached to it, inasmuch as reference would have been easy.

M. P. GANDHI.

THE LAND OF TWO RIVERS, by Baljit Singh. Published by The Indian Press, Ltd., Allahabad. 1940. Pp. 179. Price Rs. 3,

Mr. Baljit Singh's monograph is a welcome addition to the growing mass of inductive studies bearing on Indian agricultural economics. Unfortunately the picturesque title of this useful book is a misnomer. Mr. Baljit Singh's survey embodies the results of an intensive first-hand study of the economic conditions prevailing in certain rural tracts of the district of Meerut. Meerut is no doubt a typical district of Upper Doab, and the author occasionally refers to facts and tendencies relating to other parts of the Doab as well. But since the most valuable conclusions reached by him are based on facts pertaining to his narrow field of investigation, a different title would have been more suitable and convincing.

Mr. Singh's conclusions run counter to many commonly accepted propositions. For example, he has shown how the deve-

lopment of canal irrigation has not been an unmixed blessing, how the change in agricultural practice and in the choice and combination of crops occasioned by canal irrigation, has upset the balance of agricultural economy, and how increasing reliance on an inelastic source of irrigation has increased the insecurity of agriculture. He has also shown that the improved varieties of seeds have "either not been successful, or else owing to certain other factors the increased yield has not meant a marked rise in rural prosperity." Again, he has demonstrated that "generally speaking, all attempts to solve the manurial problems of India by introducing conventional methods of the West have proved a failure." At the same time he has called attention to the alarming problem of soil exhaustion created by the abandonment of the old system of judicious fallowing and crop rotation and by the growing practice of ratooning and of raising exhausting crops—a chain of phenomena connected, paradoxically enough, with phenomenal agricultural prosperity. The author is at its best when he discusses the bearing of institutional factors like tenures, caste, family and the position of the sexes on our rural economy. For instance, he argues that the size of holdings is governed by the system of land tenure, the caste system, the progress achieved by particular agricultural classes and the integrity of the joint-family system. Similarly he concludes that it is the distinctions of sex, class and caste that determine the subsidiary employment available to the rural population. In fact the author maintains that "we find a correlation between caste, size of holding, amount of indebtedness, rate of interest and the rent per cultivated acre, besides a correspondence between the caste of the cultivator and the grade of the soil." In this connection the enthusiasts of tenancy reform should do well to remember that "today it seems that the law has favoured one caste more than the other, eventually accounting for differences in their economic strength."

It is a pity that the manuscript of the book was not carefully revised before publication. There are too many instances of faulty expression and construction. Misprints are also too common. The last chapter should have more logically formed part of the first. The effects of the development of tube-well irrigation should have been discussed in connection with problems of irrigation and not in the chapter on rural industrialisation.

B. N. GANGULI.

MARITIME LABOUR IN INDIA, by Dinkar Desai. Published by Servants of India Society, Bombay. 1940. Pp. 256. Price Rs. 2-4-0 *net*.

Mr. Desai has done a distinct service to the cause of Indian seamen by lucidly setting forth in his timely publication the conditions of life and work of the different types of maritime labourers

and by suggesting measures of healthy reform in line with international standards. In his Foreword, Mr. N. M. Joshi, the tried friend of Indian workers, enumerates the hardships of these transport labourers and says that the "book gives us knowledge based upon accurate facts and sound conclusions supported by trustworthy authorities."

It looks anomalous that though India is one of the principal maritime countries of the world occupying the fourth place in regard to number of its seamen, it lacks a national shipping. Besides those in regular service a large number of seamen remain unemployed and with their dependants they make up a million of our population. Recruiting grounds for supplying crews to ships belong to families dwelling far and near ports and with hereditary aptitude for seafaring life. The deplorable working conditions of the engine room, deck and saloon employees and the nature of duties to be discharged by the heirarchy of officials are vividly described. Bribery, corruption and extortion which are rampant in the different methods of recruitment can be removed according to the author by an efficient Joint Maritime Board working at the ports under the control of a Central authority. The alarming extent of unemployment among maritime labourers leads to indebtedness and those who borrow from sarangs virtually become their slaves. The remedies for reducing unemployment or for mitigating its severity are of a peculiar kind and Mr. Desai offers salutary suggestions in Chapter III. To aggravate the situation, European nations are seeking means to restrict the recruitment of Indian and other Asiatic seamen.

Supremacy of custom and not law regulates the hours of work. The working periods vary with different ratings and on different lines. In this matter as well as on the question of holidays, wages, etc., the author quotes the example of other countries which have improved far more the position of their seamen by ratifying the I. L. O. Conventions. These reforms are a social necessity and are conducive to workers' happiness and efficiency. When racial discrimination between British and Indian sailors is notoriously indulged in and when the economic status of the shipping industry is improving, there is no reason why our seamen should not be allowed to come up to foreign standards. The shipowners concentrate on piling up profits, but are cruelly indifferent to bettering the conditions of the laskars engaged on board ship by providing them with adequate accommodation, lighting, ventilation, food, medical attendance and the like. The Governmen in co-operation with Shipping Companies, City Improvement and Port Trusts at Calcutta, Bombay and Karachi, has to launch immediately a vigorous building programme to house the seamen.

Mr. Desai puts in a strong plea for welfare work among laskars—to make their homes centres of profitable and enjoyable

activity, to impart to them general education and vocational training, to protect their health. It is too late in the day to urge the need for a unified scheme of social insurance on a compulsory basis to be administered by the State covering risks of accidents, occupational diseases, unemployment, sickness, old age and death. To effect this, Indian Workmen's Compensation Act is to be amended and the British law is to be modified to enable our seamen to reap the benefit of The Seamen's Special Fund.

Chapter XI contains an account of Trade Unionism and the handicaps under which the movement labours. The machinery for industrial negotiations, according to Mr. Desai, should be a National Maritime Board for India whose constitution and scope are outlined on page 198 *et seq.* This suggestion deserves immediate adoption. In the next chapter certain sections of the Indian Merchant Shippig Act of 1923 and the criminal penalties attached to their infringement are examined, and the Government is invited to do the needful. The splendid services rendered by the Indian Seamen in the last war were recognised by the Indian and British Governments and the shipowners who made solemn declarations for a new order for seamen. But one cannot desist from making a sad commentary on their attitude of continued indifference and apathy. Probably they like to watch the progress and achievements of our seamen in the present war and then think of giving them their due, long overdue! Suggestions are well summarised in the last section. There are useful appendices showing wage rates and scale of rations. Mr. Desai would have done better by taking into account the position of maritime workers in the southern ports also. All those who are interested in Indian shipping and seamen can hardly ignore the facts and figures which the author so ably presents in this excellent book.

B. GOVINDA ROW.

THE INDIAN COTTON TEXTILE INDUSTRY. 1940. Annual. by M. P. Gandhi. Published by Messrs M. P. Gandhi, Calcutta. 1940. Pp. 54. XXXIX. Price Rs. 3.

It is an annual review of the cotton textile industry of India published by Mr. Gandhi. The 'Annual' gives a brief history of the development of the industry and deals with the various problems like those of tariffs and International Agreements that arose after the War of 1914—18. Though the present edition is much smaller in size than its predecessors, it gives a number of useful statistical tables relating to the growth of the industry, the imports, exports and consumption of cotton bales, the history of tariff legislation in India, etc. A few pages are also devoted to the handloom industry in Appendix B. The position of the industry during the War receives special attention of the author as well as of Mr. N. R. Sircar, Ex-Minister of Bengal Government, who has written a foreword to this issue.

'Full command of the Indian market' is shown as the goal of the industry even though long-stapled cotton may have to be imported. It is a good idea but difficult to pursue when the present war is over and the competitive forces of the world are let loose as is likely to be, whatever the new social order. Further, India has also to consider the question of the disposal of her surplus short-stapled cotton in foreign countries.

We commend the review once again as a useful publication.

K. L. Govil.

Economic Reconstruction of India, by Khagendra N. Sen. Published by University of Calcutta. 1939. Pp. 500. Price Rs. 7-8-0.

He will be a bold man who can say what economic order will emerge out of the collapse of civilization that is ruthlessly going on in Europe to-day. Everything is in the melting pot. Nobody can be sure whether it will be capitalism or socialism or any other 'ism' that will survive. The War between democracy and dictatorship, though ruinous at present of human and material civilization, must in the end evolve a better order for society—a more stable economic and social organization of humanity.

A book on economic reconstruction at present, therefore, seems to be rather anachronistic. But the fact is that as far as India is concerned it is the time when we must set our house in order—not that we are so cruel or hard-hearted as to enjoy and take benefit of others' misery or that we are not affected by the War, but because the War has given a fillip to *our* existing industries, and has opened us new fields of activities. Our industries get a little respite from the cut-throat competition of the West as well as the East. In the last War we built our Tatas. This time, God willing, our Walchand Hirachands! We hope to develop heavy industries, such as, shipbuilding and the manufacture of locomotives, aeroplanes and motor cars. Thanks to our benign Government we have not been able to pursue a forward economic and fiscal policy otherwise India would have been in a much better and stronger position to help Britain in her struggle. During the last War a Munitions Board was established under the chairmanship of Sir Thomas Holland who was Chairman of the Industrial Commission as well. But the Munitions Board had a short life. The Industrial Commission was followed by the Fiscal Commission who recommended discriminate protection, and later on by Agricultural Commission, Labour Commission, Central and Provincial Banking Enquiry Committees and many other smaller bodies. Something has been done to help the industrialization of the country but the results have not been at all proportionate to the labours and expenditure incurred on these august bodies. The

feeling has been as if concessions are wrested from unwilling hands. There has been no coordinated policy or plan.

A book on economic reconstruction of India is therefore a welcome addition to the literature on the subject as it helps us to think of a plan for the economic regeneration of the country. It is the age of planning. We hear of the Soviet Plan the American Plan and of many others. Our Indian National Congress too is working through its National Planning Committee to evolve an economic plan for the country.

The learned author has divided his book into two parts. In Part I he lays down the broad principles and procedure of planning whilst Part II is devoted to the discussion of the main outlines of the individual plans. The survey is really comprehensive and covers almost all the burning economic and social problems of the day, such as, Organization of Statistics and Research, Population planning, Improvement of Agriculture, Village re-organization, Industrial development, Labour and Unemployment, Transport, Banking, Tariff Reform, National expenditure and Educational reconstruction.

Competition leads to combination which is one of the forms of rationalization of industry. We observe this tendency in India too. The Cement Merger and the Sugar Syndicate are its living examples. We hear of an agreement between the Tata Iron and Steel Works and The Corporation of Bengal. Our learned author is in favour of rationalization rather than nationalization of industry. He writes, "This does not mean nationalization so much as rationalization of our economic activities. It does not mean absolute state control of our economic life. But Government's participation in the plan is assumed." In brief he desires State regulation and not State contol. He defines the aims of national reconstuction as

1. Increase in the national productive power,
2. Rationalization of public expenditure.

We agree. But we want him also to bear in mind the problems of distribution otherwise we shall experience the troubles and turmoil of the West. Why not benefit by the experience and mistakes of others? In our economic reconstruction whilst we aim at increasing the national productive power which is so essential, we should not lose sight of the equitable and fair distribution of the wealth we produce.

Probably because of the constitutional difficulty, our friend has excluded the Indian States from his Survey Plan. It makes the plan incomplete. The States will be members of our Indian Federation and unless our planning includes them as well, the tendency will be that our capital and labour shall shift to these states wherever practicable. We are observing this tendency even at present.

The book brings to our notice so many problems which must be tackled for the sake of our economic and national regeneration and we strongly commend it to every student of the subject.

K. L. G.

INDUSTRIAL FINANCE IN INDIA, by S. K. Basu. Published by Calcutta University. 1939. Pp. 136.

The question of industrial finance in India came to the forefront with the appointment of the Industrial Commission of 1916—18. Again the Central Banking Enquiry Committee and Provincial Banking Enquiry Committees went thoroughly into the problems of industrial finance. The Central Banking Enquiry Committee discussed the relative merits and defects of the various banking systems of the world with the help of experts from foreign countries. The conservatism of the English Banking School and the go-ahead and seemingly reckless policy of the German banks have been specially studied with their reference to Indian conditions. Since then, a number of books have been published on this subject and the work under review is one of the best among them.

The author has made a critical and comparative study of the industrial finance in most of the leading countries with a special reference to India. Like so many others he has not rested content with the routine discussion of the English, German, American and Japanese systems only, but has dealt with the industrial financing of France, Poland, Hungary and some other countries. He has very ably shown the close relationship between industry and banks in the industrially advanced countries, particularly Germany and Japan and has also exhibited the woeful indifference, apathy and inefficiency of our banking institutions.

He has given the different methods of raising block capital and current finance for the industries. In this connection he has critically examined the relative position of share capital and debentures, the gearing of share capital and other cognate problems. The reason why Tata's shares are so speculative is because of the wrong gearing of capital. It is a very wrong policy for a company of that magnitude to have raised 75% of its capital by issue of debentures and preference share capital on which the company must always find interest or dividend whether it is able to earn or not. The author has tackled with this question and shown how our companies on the whole except the Tata's were able to tide over the period of economic depression better than the foreign companies because the proportion of their debenture capital to share capital was very low. He has also given the causes of the unpopularity of the issue of debentures in India. "The attitude of the banks has perhaps been most responsible for the unpopularity of debentures as a method of industrial financing

in the country. The proceedings of the Indian Central Banking Enquiry Committee proved beyond any shadow of doubt that industrial concerns which had issued debentures were not looked upon with favour by the banks. Their credit with the banks became impaired and they found it difficult to secure bank loans and cash credits on the usual terms. It must be a very narrow view, as Dr. Jeidels observed, that simply because a concern was not exclusively financed by its share capital, it was not eligible for banking accommodation. We agree with this view and feel that the banks have rather been too conservative and calculating. On page 111 the learned author has given a quotation from the report of the Indian Central Banking Enquiry Committee where he writes, "The Indian investing public are proverbially shy and are reluctant to make direct investments in industry. Land constitutes perhaps the most attractive field for investments in India. Even those who seek other avenues of investments show a remarkable preference for government securities municipal and port-trust loans and postal cash certificates, rather than for industrial shares and debentures." In spite of the fact that our banking system has been very conservative and rigid it is our firm conviction that any enterprise worth its name cannot now die in India for want of finances. It is wrong to say that Indian capital is shy; it is a little cautious and wants some form of reasonable assurance for a fair and safe return. In the last ten years we have developed so many sugar companies, paper mills, match factories, cement factories, iron works, etc., all with Indian capital. In the jute industry as well although management in most companies is foreign at least 51 to 60% of the capital is indigenous. People freely buy and sell shares and debentures on the Stock Exchanges. Land certainly does not constitute the most attractive field for investment in India at present.

Another important point raised by the author is with regard to the rationalisation of Indian industries. While other countries are much ahead of us we believe that our industrial growth is haphazard, ill-conceived and ill-planned. For want of necessary finances a merger scheme of over 30 cotton mills of Bombay was abandoned in 1931. The problem needs a careful thinking and handling. The suggestion of investment of insurance companies' funds in industrial securities, though good on theoretical grounds is fraught with dangers. Moreover the Insurance Act of 1938 demands that 55% of the liabilities to holders of Life Insurance Policies shall be in Government and Government approved securities. Apart from it, the experience of Indian Insurance Companies has been that some of them like the Oriental have been too cautious and have kept all their eggs in one basket while the others like the Bharat lost a good deal by investing in third-rate industrial concerns. What is needed is a judicious mean for the industrial investment of the Insurance Companies.

It is an admitted fact that the Managing Agents have played a special rôle in the financing and management of industries in India. Defects in management have been overlooked because of the dominating position of the Managing Agents as suppliers of finances. The author has devoted a separate chapter "Managing Agents in the rôle of the industrial financier in India" to discuss this question. He has pointed out the merits as well as the defects of this system and it can be said that his criticism is fair and unbiased.

The part played by the State in the rôle of the industrial financier in India is discussed in Chapter VII. The author has briefly summarised and commented upon the various provincial Acts called "The State-aid to Industries Acts." These measures have not been properly planned. Applications were invited and loans were advanced without proper scrutiny by efficient machinery if the applicants conformed to the set rules. The author has very pertinently said on page 233, "The most important cause of the failure of State-aid in India lies in the absence of a suitable and efficient machinery to disburse public funds after careful investigation." It is perfectly correct. The fact is that the State in India is made to do certain things in which it has no heart. Naturally the thing is done in a clumsy and in inefficient manner. There is need of proper planning—planning which will carve out measures for the co-operation of the State, the banks and the industrialists for the industrial advance of the country. Then and then alone the problem will be solved and the State-aid shall prove effective.

We commend the book as a valuable contribution on the subject.

K. L. Govil.

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The New Year-Book. 1941. Published by Messrs S. C. Sarkar & Sons, Ltd., Calcutta. 1941. Pp. 328. Price Re. 1.

Like all Year-Books the New Year-Book gives up facts and statistics about India and general information on the problems and progress of the world. The facts and statistics have been completed with care and the sources on which they are based are given in the end under the heading Bibliography. The figures included in the tables for 1937 and subsequent years relate to India alone owing to Burma having been separated in 1937.

The Year Book is quite handy, reliable and well-written. It is cheap at the price of Re. 1.

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MARSHALL'S THEORY OF MONEY AND INTEREST

BY

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The monetary ideas of Alfred Marshall belong to the highest class of economic thought—and yet they have not been generally available to economic scholars except in the form of an "Oral Tradition" at the University of Cambridge. The object of the present article, which is essentially a *critique*, is to make Marshall's contributions more widely known and appreciated.

A fundamental inconsistency in Marshall's monetary ideas arises from the dichotomy between monetary theory and barter economics which is inherent in the classical methods of investigation.

This survey begins with a summary of Marshall's position regarding price-level policy, and then goes on to the general theory of money as treated by Marshall from the standpoint of determination of the rate of interest. It concludes with comparative criticism. Marshall's theory of money is juxtaposed to that of Mr. Keynes, so as to present the logical content of Marshall's theory of money to the judgment of economists of the present generation.

Price-Level Policy.

The dichotomy between 'real' and 'money' economics comes out clearly in Marshall's discussion of monetary policy. In the course of his evidence before the Royal Commission on Currency he says at one place that money makes no difference to the economy in the long run, while at another he says that it makes a great deal of difference. (*Vide* Q. 9893 etc.)

But when it comes to practical proposals, Marshall's good sense makes him forget his barter economics, and to recommend a specific monetary price-level policy which, he says, will make a great deal of difference in the long run. It is true he advocates a falling price level and that up-to-date analysis would not substantiate his bias, but the point is, that he departs in that instance from the mythology of neutral money. (*Vide* Q. 9816 and Answer.)

Marshall's answer (a ramification of the "Quantity Theory of Money") establishes the fact that monetary disturbances affect the economy in the long run. If prices are rising or falling (the cases which Marshall considers), the disturbances are continuous and hence no stationary equilibrium is possible. The conclusion that falling prices are desirable is debatable. It may be true that in a period of falling prices entrepreneurs exert themselves to keep their business at a pitch of efficiency, that the weaker brethren among them are weeded out, and that lenders are more cautious, and that new entrepreneurs are subject to more rigorous tests. "No doubt sometimes they refuse loans to young men who might have turned the loans to good account." But it is not correct to conclude that there is a better redistribution of income as between employers and employees. Those who are in employment obtain a larger slice of the national income, but what of those—and in a period of falling prices, these are considerable—who are out of work? Further, it is doubtful whether technological progress is more in evidence in a period of falling prices. Technological progress is a function of both entrepreneurial ability and also of capital accumulation.

This leads us to another question. Is capital accumulation encouraged in a period of rising or falling prices?

On this subject Marshall is silent. There is a presumption that in a period of rising prices, capital accumulation is encouraged.

There is a fuller employment of the resources of production and consequent increases in the national income and amount saved. More investment opportunities are open to entrepreneurs and the rate of interest is kept low in relation to such opportunities.

These factors are favourable to an accumulation of capital.

This opinion is held by Mr. Keynes and Mr. Dennis Robertson and they argue that boom conditions are conducive to capital development in the long run. Boom conditions resulted in railway equipment construction and erection of new factories. Mr. Keynes goes so far as to attribute the capital construction in England in the Tudor and post-Tudor periods extending up to the beginning of the eighteenth century, to the discovery of Mexican silver and gold mines, and the piratical exploits of Sir Francis Drake.

On this matter no definite conclusion can be established, the long-run consequences of price trends are largely a matter of opinion only, because neither of the existing views can be verified by means of correlation analysis. But modern research suggests that downward price trends (subject to a small correction due to increase in technical productivity) lead to permanent under-employment of resources and labour.

Money and Interest.

From a discussion of the impact of an influx of gold on the level of prices, Marshall develops a comprehensive theory of money and interest.

The account, however, is one-sided, for it will be seen that whilst the demand side of the question of investment is quite fully depicted, the treatment of the supply side, is incomplete. (*Vide* Q. 9651.)

Marshall starts with the fact of a given supply of loans and then proves that the demand for investment and such supply determine the rate of interest. In equilibrium the rate of interest both for short and long-term loans is given by the intersection of the supply and demand curves for loans.

On Diagram 1 we have the amount of loans made on the abscissa and the rate of interest i on the ordinate, curve D is the demand curve for loans and, according to Marshall, is downward sloping.

Curve S is the supply curve and is vertical, since Marshall treats here the supply as given and constant.

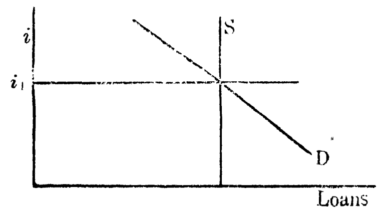


FIG. 1

The rate of interest is determined at the level (i_1) of intersection between the two curves.

The amount of loans made is clearly understood as an amount made during a period (unit) of time. This amount is closely correlated with the rate of investment per unit time since the rate of investment is an increasing function of the loans made during a unit time and the velocity with which they are spent.

Therefore, Marshall's demand curve for loans corresponds to the Keynsian curve of diminishing "marginal efficiency" of the rate of investment. The chief meaning attached by Marshall to his demand curve for loans can be expressed by the downward curve of diminishing marginal efficiency, and it will be convenient to do so henceforth. This is done in Fig. 2 by means of curve m, and curve s shows the rate of supply of investible funds.

Fig. 2 is a translation of Fig. 1 in modern terms.

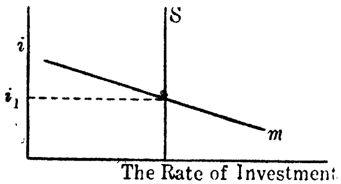


FIG. 2

Thus, according to Marshall, the rate of supply of funds being given the long-term rate of interest is determined by the law of diminishing marginal efficiency of the rate of investment.

Therefore according to Marshall the rate of interest has nothing (directly) to do with the quantity of money (in the long run). He says (Q. 687) " . . . In my opinion, the permanent rate of discount has no connection with the amount of currency. The centre about which the discount fluctuates in my opinion is determined by the profitableness of the business."

The statement of determination of the rate of interest for the long run, as per Fig. 1 or 2, is supplemented by short-period dynamics. They are worked out in terms of a special case, and the special case is the influx of gold to Great Britain and its effect on the rate of interest.

Marshall believes that changes in the stock of money have influence on the rate of interest in the short run, but not in the long run. The argument by which he sustains this conclusion may first be considered.

An influx of gold enlarges the credit base and in the short run, the rate of interest fluctuates. As a result of the increase of supply of money in the hands of lenders, the rate of interest is lowered. Borrowers (the schedule of marginal efficiency being given) increase their investment. The increase in nominal investment (changes in real investment are considered to be of secondary importance) leads to a rise in prices. This very rise in prices leads to borrowers increasing their demand for loans, and thus to

raising the rate of interest. So what has occurred is merely a nominal rise in prices. Marshall in his answer suggests that the velocity of circulation of money in the final position of equilibrium is the same as it was before the disturbance. How this is achieved may be perceived if we split the process of economic adjustment into stages. Following Mr. Dennis Robertson, let us assume that on O "day" there is equilibrium, M representing the quantity of money, V the transaction velocity of money. On the first day, due to the influx of gold, the quantity of money M is increased, the rate of interest falls, but the transactions T have not yet altered. Hence $V = \frac{T}{M}$ falls, or the velocity of money has fallen. On the second day, investments, transactions and prices increase. Therefore velocity must change. Whether it will be the same as on zero day cannot be determinded. It may be the same as on zero day, or differ in special cases. But the velocity is likely to be even greater than on zero day if there is "speculations," and an outburst of confidence on the part of investors. On the third day there is further increase in demand on the part of borrowers for loans, and this leads to the rise in the rate of interest to the level of the zero day. The velocity also is the same as on zero day, if transactions have altered in the same proportion as the quantity of money.

Marshall's dynamics of the gold influx case can be stated clearly by developing Fig. 2 and this is effected on Figs. 3 and 4.

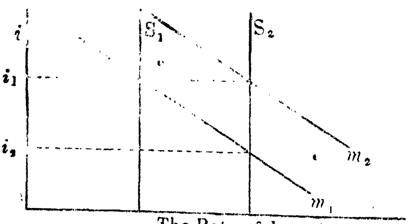


FIG. 3

In Fig. 3 the initial equilibrium rate of interest is i_1, determined by initial conditions expressed by curves s_1 and

m_1. The injection of gold leads to the credit base being enlarged, and hence to an increase in the rate of supply of investment funds expressed by the shift of the supply curve to the right, from s_1 to s_2. The demand curve is not immediately affected and remains approximately in the position of curve m_1. Therefore the impact on the rate of interest is to lower it from i_1 to i_2, i_2 being determined by the intersection of the curves s_2 and m_1.

But gradually the demand curve also becomes affected. The expansion of credit leads to a rise of prices and so to a proportional increase in the demand for investment funds to finance the same real volume of production as before. This is shown by the ultimate shift of the marginal efficiency curve to the right from m_1 to m_2, exactly by the same amount as the shift in the supply curve from s_1 to s_2. When the shift of the marginal efficiency curve to m_2 comes about, the rate of interest is determined by the intersection of curves s_2 and m_2. The rate so determined in Fig. 3 is i_1, so that the rate of interest returns to the initial level extent before the influx of gold. The final effect of gold influx is an all-round rise of prices and an increase in the nominal rate of interest, whilst the rate of interest and real production are unaffected.

Before criticising this theory, we can deal with the refinement introduced by Marshall in the above argument. The refinement is that there is no appreciable time-lag between the influx of gold and the shift of the marginal efficiency curve by a substantial amount to the right. The curve shifts to the right before the gold influx leads to the expectation in the minds of investors (and speculators) that prices will rise, so that investment is expected to be more profitable.

The immediate shift is shown in Fig. 4 by the translation of curve m_1 to m_2 simultaneously with the shift of the supply curve from s_1 to s_2.

The result of the immediate shift of m curve to m_2 is that the rate of interest falls only by a small amount to i_2, the fall being smaller than would be the case if the m curve remained in position m_1 in which case the rate of interest would have declined to i_4. This fall to i_4 is prevented by

the optimism of investors hopeful of rising prices, and in fact the consequent rise of the rate of investment from J_1 to J_2 engenders a rapid rise in prices because of anticipation of the ultimate rise in nominal prices.

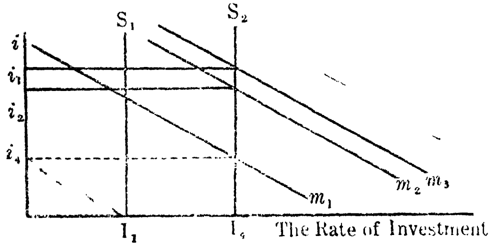


FIG. 4

Marshall leaves one with the impression that the rate of interest may even rise temporarily above the initial level through the shift in s curve leading to a shift in m curve by a larger amount because of "speculation."

The rôle of speculation according to Marshall is merely to speed up the adjustment to a higher level of prices and of the rate of nominal investment. The ultimate shift in m curve is from m_1 to m_3 and is by the same amount (J_2—J_1) as the shift in curve s from s_1 to s_2. This is because the increase in credit leads in the end to a rise of prices and for this higher level of prices there corresponds a higher level of investment (J_2) at the same rate of interest as before (i_1). The curves s_2 and m_3 in Fig. 4 therefore have to intersect at the original level of the rate of interest i_1.

In the long run, therefore, the change in the supply of money has no effect on the rate of interest, or on real production.

Two things may be said about the final conclusion of Marshall that changes in the supply of money have no long-run effect on the "real" production and on the rate of discount. First, the allegation that there is no effect on production is obviously inconsistent with his advocacy of a falling price level discussed before. Secondly the conclusion that the rate of interest is unaffected (because m curve shifts to the same extent as s curve) is doubtful and

unconvincing. For, supposing Marshall's argument is right that a single dose of gold (and the single dose may have permanent effects) has no long-run effect on the rate of interest, the case may be different if the injections are repeated over a long period.

These continuous injections may affect the trend of the rate of interest. They distinctly affect real investment. In fact, Marshall's conception of the economy moving to a stationary equilibrium is far removed from what happens in practice. In the period chosen by him for investigation, the discovery of gold mines in California and silver in Mexico disturbed the equilibrium, and it is highly improbable that the economy reverted—if it reverted at all —to the original equilibrium.

The Marshallian argument of the "return to original equilibrium" can obviously not be defended (except by a species of academical bookworms) by saying that the "system" must revert to the initial state because it is assumed to do so.

The best way of making use of Marshall's argument of the return of the rate of interest to its "original level" is not to take it too seriously, or literally. Obviously, Marshall was aware that economic evolution is irreversible, and the only reasonable view he could have in saying that the rate of interest returns to initial level, is that changes in the supply of money have no influence on the trend of the rate of interest.

The argument has a certain plausibility, for, as we have seen, changes in the supply of money cause both s and m curves on Figs. 2—4 to shift in the same direction; and the effect on the rate of interest of the shift in one is compensated by the shift of the other.

The criticism against Marshall is that this compensation is incomplete, and that our ignorance of the precise degree of compensation would provide no excuse for assuming that it is complete.

Diagrams 1—4 show the one-sided nature of Marshall's theory of interest—with the emphasis on the schedule of the marginal efficiency as the chief determinant of the rate of interest. Nowhere does he explain how the curve of the

total supply of loans is determined; he explains only a change in the supply due to the influx of gold.

Contrast this treatment of supply of loans with that of the demand for loans. There, as we have seen, he explains that the demand for loans is determined by investment opportunities. The demand curve is sloping downwards owing to successive investment opportunities being less and less profitable. Finally he explains how a shift in the curve occurs due to an influx of gold and "speculation." Thus his account of the demand curve for loans is comprehensive.

Comparative Criticism.

In contrast to Marshall's theory that the rate of interest is determined by the supply and demand for loans, we have Mr. Keynes affirming that the rate of interest is determined exclusively by the velocity of circulation of money. That is to say, the rate of interest (at each level of income) will be determined by the stock of money because of people's liquidity preference. Marshall's proposition is that M (the quantity of money) is a function of Y people's income: $M=f(Y)$. Mr. Keynes's proposition is that M (the quantity of money) is a function of income and of the rate of interest i, or that i is a function of velocity of circulation,

i.e., $M=f(y, i)$ or $i=\theta\ (Y/M)$ and $\frac{\delta i}{\delta y} < 0 > \frac{\delta i}{\delta M}$

Marshall's proposition is $M=f(y)$ and $\frac{\delta i}{\delta M} = 0$.

What is Marshall's justification for his standpoint?

Marshall says that the quantity of money which people hold depends on the amount of work it has to perform and this depends on income. People desire to keep a certain proportion of their income for transaction purposes. Given the fact of habit and methods of business, an individual holds a determinate amount of cash for each level of transactions, and this has nothing directly to do with the rate of interest.

What defence has Mr. Keynes for his standpoint?

He writes (p. 171 of *The General Theory of Employment, Interest and Money*), "It may illustrate the argument to point out that if the liquidity preference *due to the*

transaction motive and precautionary motive are assumed to absorb a quantity of cash *which is not very sensitive to change in the rate of interest* as such and apart from its reactions on the level of income, so that the total quantity of money, less this amount is available for satisfying liquidity preferences due to the speculative motive, *the rate of interest and the price of bonds have to be fixed at the level at which the desire on the part of certain individuals to hold cash* (because at that level they feel bearish of the future bonds) *is exactly equal to the amount of cash available for the speculative motive.*"

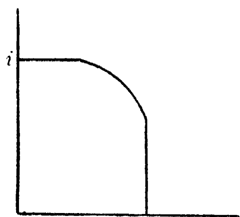
The first part of Mr. Keynes's statement is an acceptance of the Marshallian position that cash held for transaction purposes is not influenced by changes in the rate of interest. On the same page, he illustrates this point by an example. The effect of a decrease in the rate of interest leads to an increase in investment. Hence incomes increase, and the demand for cash balances for transactions is also increased. People therefore hold more money.

This example does not prove Mr. Keynes's case because in it he allows income to vary. To prove that a fall in the rate of interest will lead to an increase in the stock of money held *ceteris paribus* (income remaining constant) it would have been necessary to devise quite another example in which the income was kept constant. As it is, Mr. Keynes himself attributes the increased demand for money to hold to changes in transactions and so *indirectly* to the fall in the rate of interest.

Is the Marshallian view regarding transactions motives which Mr. Keynes accepts correct? The view that the rate of interest is a negligible factor in determining the amount held for transactions purposes is probably correct, because unless the rate of interest is very high it is a negligible factor as a cost of holding money, as compared with the extremely important factors of the probable amount of transactions and the risks of great inconvenience, that might be caused by a shortage of cash to meet obligations or the advantages of holding ready cash to profit from purchasing at some very convenient opportunity. For instance, the demand for short-term loans to finance working capital in

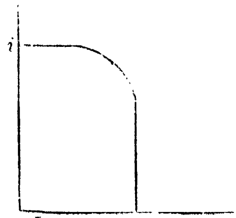
ordinary, non-speculative business, is not affected by the rate of interest because the period of financing is relatively short. Mr. Hawtrey opines otherwise and may be right.

All these factors are much more important than the rate of interest so that the rate of interest is not taken account of, and hence it is these factors which determine transactions balances and not the rate of interest. As mentioned below (and shown in the diagram) the elasticity of transactions balances with respect to the rate of interest is zero. But for the very high rate of interest it becomes worth while taking the interest cost into account, and therefore the transactions balances will be influenced by higher rates of interest. It is here that marginal adjustments in cash holdings, due to changes in rate of interest, come into operation and hence the curve bends towards the i axis (Fig. 3). It is obvious that even if he conceded to Marshall in the matter of transactions balances, he would still claim that the total demand for money is dependent on the rate of interest, because the demand for speculative balances is sensitive to changes in the rate of interest.



Transaction Balances.

FIG. 5



Precautionary Balances.

FIG. 6

In diagrams 5 and 6 curves are drawn showing the relation between the rate of interest and the amount of money held for transactions and precautionary purposes. For reasons mentioned above, the demand for these two purposes is not sensitive to changes in the rate of interest at low levels. The elasticity of the curve describing the relationship between transactions balances and rates of interest is zero, at low levels of the rate of interest.

It is only later that the curve bends towards the i axis on the two diagrams.

When Mr. Keynes bases his case on the demand for money for speculative balances being dependent on the rate of interest, he breaks new ground. If the curve of liquidity preference for speculative balances be downward sloping then he proves his case. For by a summation of the three curves we then find that the total demand curve for money is sloping downwards gradually.

What is the speculative motive?

The speculative motive is the motive which induces the individual to hold money balances in order that he may secure profit "from knowing better than the market what the future will bring forth."

When the speculator holds cash, he postpones purchase of securities either in expectation that they will fall, or in order to take time and study better the probable security outlook and so to diminish the subjective risk of purchase (*i.e.*, to consolidate his expectations). His postponed purchase, when it matures, can be of two kinds—purchase in order to resell with profit, or purchase at opportune juncture in order to keep the securities and to enjoy their yield. In either case he earmarks certain cash for the intended purchase, and it is *this* sort of cash which constitutes speculative balances. The approach (used by Keynes and others) assumes that the total stock of money is a sum of parts each held for a particular purpose, so that the total cash is assumed to be an additive function of the variables on which its parts depend. The assumption of additive functions is not strictly true, but is a useful simplification for purposes of literary economics.

If the money held by individuals for speculative purposes be considered, as money held in order to transact in securities and make a profit in the future, then it is difficult to establish a continuous curve connecting the rates of interest and speculative balances. People make profits (or losses) by buying securities on the first day (let us say) and selling them on the second day at higher prices (or lower prices). Considerations of risk rather than changes in the rate of interest seem to influence the decisions of

speculators to hold cash. As in the case of pure transaction balances, the cost of holding money seems negligible, as compared with the costs of risk. People consider interest foregone by holding the money, as an item of cost which they can neglect. It is only if the rate of interest is high that they count it as a cost. Then it is that the marginal adjustments due to changes in the rate of interest come into operation.

It is still less easy to see the influence of long-term rate of interest as a cost of holding money. To appreciate Mr. Keynes's argument, we have to consider the matter from an entirely different angle.

The clue to Mr. Keynes's position is to be found on p. 197 of the *General Theory of Employment, Interest and Money*, where he writes thus: "Experience indicates that the aggregate demand for money to satisfy the speculative motive usually shows a continuous response to gradual changes in the rate of interest. . . ."

"Indeed, if this were not so, 'open-market operations' would be impracticable. I have said that experience indicates the continuous relationship stated above, because in normal circumstances the banking system is in fact always able to purchase (or sell) bonds in exchange for cash bidding the price of bonds up (or down) in the market by a modest amount; and the larger the quantity of cash which they seek to create (or cancel) by purchasing (or selling) bonds and debts, the greater must be the fall (or rise) in the rate of interest."

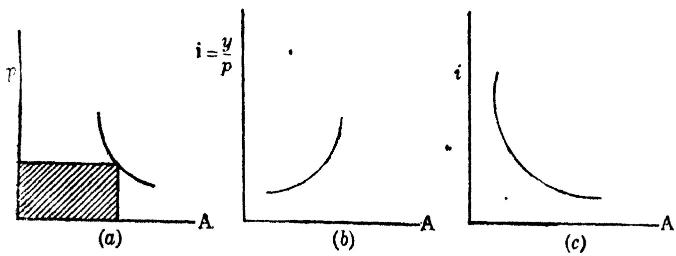


FIG. 7

In diagram (a) we have the price of securities p represented on the ordinate and the amounts (A) offered by the

bank to the public on the abscissa. For the sake of simplicity we assume such securities offered to the people to be consols (this simplification does not affect the conclusion). As more of the consols are offered, their price falls. The curve relating the price p of the consols and the amount offered is therefore downwards sloping. The relationship between the amount of securities offered and the rate of interest is expressed in diagram (b). Now $i = \frac{y}{p}$ (where y represents the given yield). As p falls the rate of interest rises. Hence as more consols are disposed of on the market the rate of interest on consols rise. Curve (c) is upward sloping and is the inverse of the curve in diagram (a). How is the demand for speculative balances related to the rate of interest? From diagram (a) we obtain the quantity of Money M disgorged by the public to the banks (that quantity of money = amount of consols $\times$ their price and is represented by the shaded rectangular area). The quantity of money in the hands of the public after each sale of consols by the banks is the quantity of money M_0, which they had less the amount that they have disgorged, *i.e.*, $M = M_0 - M$.

Now if M increases with each sale of consols by the bank, then the curve (a) has an elasticity>1. If M is constant, then its elasticity$=1$, and if it decreases then elasticity is<1. M cannot remain constant or decrease, since experience of open-market operations shows that these two cases are unlikely. Hence elasticity is>1.

Let us turn to diagram (c) where a curve connecting rates of interest with the quantity of money (M) held for speculative purposes by the public is shown. This curve (i) is continuous, and (ii) is downward sloping, because i increases with A, and the elasticity of curve (a) is >1. Curve (c) is precisely the curve of liquidity preference that Mr. Keynes is after and its validity will not be questioned by anybody.

Suppose that curve (a) has elasticity$=1$, then M is constant and changes of the rate of interest do not affect the quantity of money M held by the public. The curve of i

as a function of M is therefore vertical as shown in diagram (d).

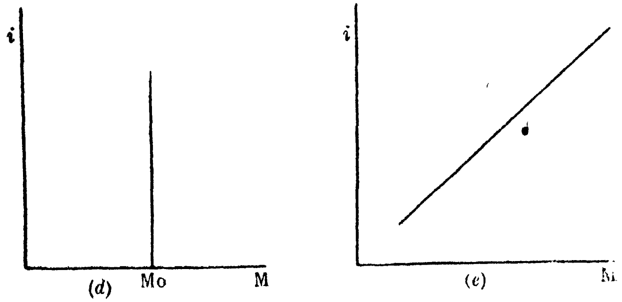


FIG. 8

If the curve (a) is inelastic, then we have an upward rising curve of liquidity preference in diagram (e). That is to say, at increasing rates of interest people hold an increasing amount of cash balances. The paradoxical cases (d) and (e), however, seem to be ruled out, because experience suggests that curve (a) is elastic. That is to say, the central bank seems always able to extract more money from the public, if it offers them a larger volume of securities. It is interesting to note, however, what a great importance the question of elasticity has for Mr. Keynes's analysis. It is worth while mentioning this point since it has been generally overlooked.

Mr. Keynes's example of "open-market operations" establishes his *quaesitum*, that there is a collective liquidity preference curve which slopes downwards gradually. The result is established *statistically*,—*i.e.*, by establishing a rough correlation between securities sold, and their prices and the amount of cash disgorged by the public. Let us now enquire what forces are behind this curve. It is clear that there is a scale of preference for securities and cash balance for each individual. An individual's decision to hold securities is influenced by considerations of prices of securities, expected yields, marketability and risks. Thus, with given prices, he will not hold a single security but aim at some optimum combination. It is too risky to have all

one's eggs in one basket; hence he chooses, for instance, securities of different types: Consols, South American shares, South African Kaffirs and Indian rails.

As he invests in South African Kaffirs, the net rate of return diminishes. The net rate of return is obtained after discounting disutilities of risk, etc. Similarly in the case other securities, the net rates of return diminish. In order to maximize the utility of investment in securities he invests until he obtains the same rate of net return from each of these securities. That combination which satisfies this condition is the optimum combination. In the case of each class of assets there is a continuous curve of diminishing net rate of return or marginal efficiency. Thus in diagram (f), the amount of the securities (the number of shares held), is represented on the abscissa and the net rate of return or marginal efficiency (expressed in terms of i) on the ordinate.

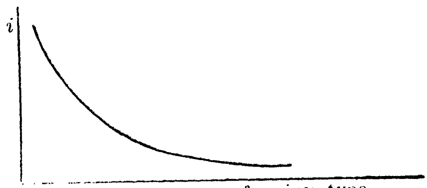


FIG. 9

The case of open-market operations suggests that there is a similar curve showing an individual's liquidity preference for speculative cash balances. An individual holds such cash balances for carrying on purchases for sale and also for buying such securities in the future as he may wish to keep. Cash balances are needed (i) for meeting any losses which may be incurred by some of the securities depreciating in value, (ii) for buying securities at a later period for resale, when conditions are more favourable for such purposes, and (iii) for buying securities to keep.

The last objective, *i.e.*, that of buying securities to keep, arises from the fact that market opinion is not unanimous on what types of securities are worth holding in lieu of cash. If opinions were unanimous, individuals

tions is quite symmetrical to Marshall's case of the influx of gold, and it is equivalent in many respects to the loss of gold by the central bank. Therefore we can easily reconstruct what Marshall's view would be for the case of sale of securities by the bank, since we know what Marshall thinks of the contraction of credit. According to Marshallian analysis, the sale of securities leads to a cancellation of bank loans, first by the amount of the sales proceeds from those securities, and then by the reduction in loans which commercial banks have to make to maintain their reserve ratio. This reduction in loans causes most rates of interest to rise.

From the schedules of marginal efficiency being given, or rather the demand curves for loans being given, a reduction in supply means that the less profitable investments have to be given up. So far the difference of analysis is merely that Mr. Keynes attributes this rise to the reduction in speculative balances, which are available for satisfying people's speculative motive, whilst Marshall attributes the rise in the rate of interest to the reduction in the funds available for investment.

There is no difference in the results, and since loans and speculative balances move in the same direction, it does not much matter to which of them the rise in the rate of interest is attributed in the particular case. But there are important differences in the *analysis of motives*, and in general economic implications. Mr. Keynes suggests that the rate of interest is an important element of cost in holding speculative balances, whereas Marshall would probably suggest that these balances depend simply on the amount of business anticipated to be done. For the next stage of the process of contraction of credit, Marshallian analysis suggests that a general downward adjustment of prices is induced and nominal incomes fall. This causes the demand schedule for loans to shift to the left and thus causes the rate of interest to fall (wages being flexible). There is a return to the initial equilibrium except that prices will have fallen, whilst the rate of interest will be the same as in the first case because both the demand and supply schedules will have been shifted to the same extent. But if wages

were rigid, Marshall would probably argue that unemployment would ensue, in order to reduce money incomes to a level compatible with the reduced quantity of money.

Here again there would be no difference between Marshall and Keynes in the results. The difference is one of mechanism. Marshall would argue that incomes and employment have to fall in order that the reduced quantity of money should satisfy the transactions motive (whatever the rate of interest may be), and Mr. Keynes argues that the rate of interest has to rise to enable the reduced quantity of money to satisfy the speculative motive, the rise in rate of interest causing a reduction in employment. Both methods are legitimate because they differ only in the choice of variables, and one variable does as well as the other if the two are correlated. Thus it amounts to the same thing if we say that the rate of interest rises because the supply of loans is curtailed as when we attribute the rise in the rate of interest to the increase in the velocity of circulation of money. This is so because in the Keynesian and Marshallian examples (immediate effects of changes in the supply of money on the rate of interest), the supply of loans moves in the opposite direction to the velocity of circulation so that the movements of the one can be described by implication in terms of the associated movements of the other.

The chief objection which Mr. Keynes could advance against the Marshallian theory of rate of interest would therefore be directed not against the Marshallian technique or choice of variables, but against the essential incompleteness of Marshall's theory. As we have pointed out before, Marshall fails to give an explanation of what determines his total supply of loans, and has neglected the important effects of money on employment and real investment and capital accumulation whilst overlooking the importance of the multiplier and the propensity to consume. The incompleteness of Marshall's monetary theory of interest has made it possible for him to fall back upon the facile conclusions of the doctrine of neutral money, and its guarantee of full employment.

The gaps in Marshallian analysis have been filled by Mr. Keynes who builds his own tools as he goes along.

Mr. Keynes deals with the whole gamut of relations constituting something like a self-contained system of monetary equilibrium, thus amply justifying the title of his work as dealing with a *general* theory.

Mr. Keynes clearly shows the effects of monetary forces on employment and accumulation, and this he does by analysing the supply side, as well as the demand side, of investment, and by indicating the strategic importance of liquidity preference. He deals with the propensity to consume, and the level of income as the principal determinants of saving, which are left vague in Marshall; he deals with the "Multiplier" effect, and perhaps the most striking proposition of Mr. Keynes is in his section in the "own rates of interest" where he attributes the chronic tendency to unemployment in advanced capitalist society to the public's insatiable demand for cash which the banks have seldom been prepared to satisfy in full. The rate of interest at which the public is prepared to hold cash rather than invest tends to outrun the rates of return made available by investment opportunities, and has an unfortunate technical minimum below which it does not fall.

The rate of investment is kept below the level of full employment and the remedy is to be sought, suggests Mr. Keynes, in a radical revision of tradition in banking policy and budgetary equilibrium. If the public insists on having money rather than productive assets, arrangements should be made to let them have more money and less securities. So the upshot of Keynesian contribution is that liquidity preference is the *bête noire* of the capitalist system and that the way to deal with it is to satiate it.

Without necessarily admitting the complete finality of the Keynesian diagnosis it is obvious that Mr. Keynes furnishes great improvements on Marshallian analysis, in two ways: first in elaborating the technique for dealing with facts, and second by drawing attention to facts which, although of vital practical importance, have been disregarded, as by Marshall.

But the connection between the discoveries of Mr. Keynes and the ideas of Marshall, has probably been made clear. Keynesian improvements represent a natural and

even logical development from the Marshallian ideas, and Mr. Keynes, as the editor of the *Official Papers* would probably be the first to acknowledge his indebtedness to their author. Indeed, in his *Essays in Biography* (p. 195) Mr. Keynes says: "We must regret still more Marshall's postponement of the publication of his *Theory of Money* until extreme old age, when time had deprived his ideas of freshness and his exposition of sting and strength. There is no part of Economics where Marshall's originality and priority of thought are more marked than here, or where his superiority of insight and knowledge over his contemporaries was greater."

"Here too has a semi-independent section of the subject ideally suited to separate treatment in a monograph. Yet apart from what is embodied in his evidence before Royal Commissions and occasional articles, not one single scrap was given to the world in his own words and his own atmosphere at the right time. Since Money was from the early seventies onwards one of his favourite topics for lectures, his main ideas became known to pupils in a general way, with the result that there grew up at Cambridge an oral tradition, first from Marshall's own lectures and after his retirement from those of Professor Pigou, different from, and (I think it may be claimed) superior to, anything that could be found in printed books until recently."

TREND OF DIETARY HABITS AND ANALYSIS OF FOOD BUDGET IN WORKING CLASS FAMILIES OF BIHAR*

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Introduction.

It appears from a short note recently published by Aykroyd[1] that over fifty surveys of the diet actually consumed by groups of families have now been carried out in various parts of India. But so far no attempts have been made to compute mathematically the percentage incidence of the expenses allotted to different classes or groups of foods or the preference exhibited by the consumers for the different items. The importance of family budget enquiries is gradually being realised in this country and various official agencies have already collected and are collecting useful information on this subject. These data are being utilised mainly for the compilation of living index numbers for the respective localities, though some of these reports contain details of expenditure on foods. Gutierrez and Santos[2] have very aptly remarked that 'in a dietary study it is not sufficient to determine the nutritive value of the diet, it is also useful to know how much money is spent for food and exactly how it is spent, for the problem of food con-

* Being a paper read at the 28th Session of the Indian Science Congress held at Benares, January 1941.

[1] Aykroyd, W. R. (194/)—Note on the result of diet surveys in India, Indian Research Fund Association (Lidell's Printing Works, Simla and New Delhi).

[2] Gutierrez, M. and Santos, F. O. (1937). *Philippines Journal of Science*, Vol. 66. No. IV. p. 206.

sumption is unquestionably economical as well as nutritional.'

In two previous communications the author[3&4] has made an attempt to study the nutritive value of the diets consumed by groups of families at different income levels at Iron and Steel Works at Jamshedpur and the coal-fields of Jharia. In the present study the data collected during these investigations have been further analysed to find out the proportion of the family budget for the different classes of foods and the trend of food habits exhibited by the families of different economic levels residing in those areas.

At each of these investigation centres the families were divided into four groups (Gr. I, Gr. II, etc., in Table I) according to their total monthly income. It is indeed unfortunate that owing to circumstances beyond control similar income grouping could not be done for both centres. All the relevant data about the different family groups are shewn in Table I. For the sake of abbreviation all the eight groups would be referred to in the text by the designation given in the table.

[3] Mitra, K. (1940), *Indian Journal of Medical Research*, Vol. 27, No. IV, pp. 887—906.

[4] *Idem.* (1941), *Ibid.*, Vol. 29, No. I, pp. ?

TABLE I.

Various indices in the different family groups.

Different indices.	Jamshedpur Steel Works				Jharia coal fields.			
	Gr. I	Gr. II.	Gr. III.	Gr. IV.*	Gr. I.	Gr. II.	Gr. III.	Gr. IV,
Monthly income of the family in rupees ...	Up to 30·0	30·1 to 45·0	45·1 to 90·0	90·1 and above.	Up to 15·0	15·1 to 25·0	25·1 to 50·0	50·1 and above.
Total number of families	110	35	19	13	74	42	41	37
Total number of consumers.	479	177	116	73	284	210	222	260
Average number of consumption units per family	3·35	3·93	4·46	4·82	2·89	3·70	4·17	5·37
Nomenclature suggested for the family groups ...	(A)	(B)	(C)	(D)	(a)	(b)	(c)	(d)

* Does not exceed Rs. 200 per month.

From the penultimate index in Table I it appears that with the increase in the total income of the family the number of consumers also increased in both the industrial areas. The feature is specially noticeable in Jharia coalfields.

Expenses on Food.

It is usual in family budget enquiries to elicit direct information as to the amount spent for the purchase of edibles by questioning the householders. But in the present study the expenditure on the foodstuffs was computed after the conclusion of investigations by working out the cost of the different articles of food consumed by each family based on the respective market rates existing at the time of investigation. The detailed data in this connection for the 8 family groups are shewn in Table II. The Jamshedpur survey was carried out before the present war had begun whilst investigations in Jharia were made a few months after the declaration of war and the prices were slightly higher (within 10 per cent). The cost of living index numbers during the respective periods of investigation were found to vary between 114 and 122 at Jharia and between 105 and 110 at Jamshedpur.

It appears from Table II that with increase in income the expenditure on food also increases. This finding is similar to that of Orr[5] in the case of families surveyed in Great Britain. Another feature noticed in the present study was, that with the rise in income level, the percent spent on food diminishes. This feature could not be noticed in the family budget figures of working class families compiled by the Labour Office of the Bombay Government for Sholapur,[6] or for Bombay City.[7] On the other hand in a similar report

[5] Orr, J. B. (1936), *Food, Health and Income* (Macmillan & Co., Ltd., London).

[6] Labour Office, Government of Bombay (1928), Report on an Enquiry into Family Budget of Cotton Mill Workers in Sholapur City.

[7] Labour Office, Government of Bombay (1935), Report on an Enquiry into Working Class Family Budgets in Bombay City.

TABLE II.

Indices of income and expenditure in relation to food.

Indices.	Jamshedpur Groups.				Jharia Groups.			
	(A)	(B)	(C)	(D)	(a)	(b)	(c)	(d)
Monthly family income (in rupees)* ...	20·58	38·61	66·90	123·29	11·27	20·30	37·77	83·32
Monthly family expenditure on food (in rupees)	12·99	21·58	34·65	52·15	8·25	13·63	24·68	50·42
Percent of income spent on food ...	63·1	55·9	51·8	42·3	73·2	67·2	65·4	60·5
Average daily income per consumption unit (in annas)* ...	3·1	5·4	7·4	14·0	2·9	3·7	4·2	5·4
Period of enquiry ...	July—October, 1938.				October—December, 1939. March—April, 1940.			

*1 Rupee is equal to 16 annas and is roughly equivalent to 1s. 6d.

published by Adyanthaya[8] some difference could be noticed in this percentage between the highest and the lowest income groups. In all the three enquiries referred to the percentage of income spent on food was found to vary between 44 and 53 per cent. Orr[5] discussing the distribution of national income and food expenditure at different income levels stated that as income fell the percentage spent on food increased. He concluded that the expenditure on food was 20% of the income in the highest income level rising to 50% in the lowest income groups.

As the figures for monthly income in the family do not give a correct index of spending power, income per consumption unit per diem in annas has been shewn in Table II. In the absence of a satisfactory scale of *cost coefficients* (factors representing the proportion of total income consumed by individual members of the family in the various age and sex groups assuming one 'man-value' as unity) the League of Nations[9] scale of family coefficients have been used in calculating the income per consumption unit.

In order to find out how the increase in income influences the expenditure on the different classes of food the percentage incidence of expenses for each of the food groups has been calculated and shewn in Table III. The expenditure on cereals, pulses and leafy green vegetables [except in group (d)] was found to maintain a negative correlation with the income level of the families. This phenomenon is quite understandable in the case of cereals and pulses. Cereal grains contain very little protective foods, *i.e.*, mineral matter and vitamins (with the exception of vitamin B_1 in unmilled or slightly milled ones) and are the cheapest type of energy-yielding foods; whereas the pulses are the cheapest source of body-building material, protein. With more money available for food one would expect replacement of these foods by more nutritive (and costly) items in

[8] Adyanthaya, J. K. (1938), Report on an Enquiry into Family Budgets of Industrial Workers in Madras City.

[9] League of Nations (1932), *Quarterly Bulletin Health Organisation*, Vol. I, No. III, p. 476.

TABLE III.

Percentage incidence of expenditure on different classes of foods.

Group numbers.	Cereals.	Pulses.	Non-leafy vegetables.	Leafy vegetables.	Condiments.	Fats and oil.	Fruits.	Flesh food.	Milk and Milk product.*	Sugar and jaggery.
(A)	57·9	9·6	8·0	2·8	3·0	6·9	0·1	7·3	3·2	1·2
(B)	48·8	9·0	8·9	1·8	2·6	14·8	0·3	5·8	6·0	2·0
(C)	32·9	6·9	9·7	0·4	3·0	16·8	2·7	10·5	13·6	3·5
(D)	26·4	5·1	9·6	0·5	2·6	22·1	4·6	4·9	20·0	4·2
(a)	59·9	16·4	2·8	3·5	3·0	5·5	...	5·7	1·4	1·8
(b)	52·0	13·5	6·0	0·9	3·0	7·9	0·1	10·3	4·3	2·0
(c)	33·4	7·9	8·9	0·4	2·7	12·1	3·8	10·4	16·8	3·6
(d)	21·8	6·0	8·4	0·9	1·6	17·0	7·3	11·0	20·8	5·2

Excludes ghee.

the dietary. As regards the cereals a similar finding has been recorded by Gutierrez and Santos[10] in the case of 104 working class families in Manila. But Orr[5] could not find any marked diminution in the *per capita* consumption of cereal products, *e.g.*, bread and flour. The percentage of expenditure on pulses was definitely higher in the Jharia group of families as compared with those in Jamshedpur.

Leafy vegetables on the other hand usually contain more than one essential nutritive element, *e.g.*, calcium, vitamin A and vitamin C; moreover a rice-eating community can ill afford to disregard this important class of edibles in planning the food budget. Consequently the diminution in expenditure on this item with the rise of income noticed in the present study is discouraging. In this connection, the following remarks made by Cathcart and Murray[11] about the families in St. Andrews, Cardiff and Reading are very illuminating. 'It is undoubtedly true that, even if there were abundant money for food expenditure in every household, ignorance and stupidity would often prevent the maximum nutritional benefits from being obtained, as they certainly do in many of the houses of the well-to-do at present.'

The expenditure on non-leafy vegetables, milk and milk products, fats and oil and sugar and jaggery was found to increase with the rise in the income level. This may be regarded as a move in the right direction. Milk and milk products help to balance diets poor in quality very easily, as they contain first class growth-promoting factor (animal protein) as also other mineral elements particularly the much needed calcium; the fat component of milk supply vitamins A and D. Non-leafy vegetables are tolerably good sources of minerals, vitamins and the fibrous and cellulose element in the vegetable cells improve the intestinal hygiene by stimulating regular movement of the bowels. Fats and oils are concentrated sources of energy-

[10] Gutierrez, M. and Santos, F. O. (1939), *Acta Medica Philippina*, Vol. I, No. II, pp. 171—193.

[11] Cathcart, E. P. and Murray, A. M. T. (1937), Medical Research Council, London, *Special Report Series*, No. 218.

yielding element in the dietary thus helping to reduce the bulk of the diet; animal fats supply some of the vitamins in addition. These findings agree with those recorded by Orr[5] and Gutierrez and Santos.[10] In the case of Jharia families the consumption of flesh food (*i.e.*, meat, fish and eggs) was found to maintain a positive correlation with income which was in keeping with the observation of the authors referred to above. But in the case of Jamshedpur families such was not the case. Flesh foods are first class animal proteins. This particular phenomenon is not difficult to explain if it be recognised that in this country a very large section of the people have an aversion to flesh foods on religious grounds. As regards the consumption of condiments the findings do not permit any inference to be drawn. In a poor rice eater's diet condiments supply protective mineral elements.

Attempts have been made from time to time by nutrition workers to formulate a schedule of expenses for various classes of foods. Concepcion[12] quoting 'authorities in nutrition in the United States' states that one-fifth of food budget should be spent on flesh foods, *i.e.*, meat, fish and eggs; another fifth on milk, cream and cheese; another fifth on cereals; another fifth on fruits and vegetables; and the remaining fifth on fats, sweets and miscellaneous items. Referring again to the estimates of Orr,[5] one finds that during the year 1934 an average householder in Great Britain was supposed to have spent about 40% of his food budget on flesh foods, about 10% on bread and cereals, about 14% on milk, cheese and cream, a little over 12% on butter, fats and sweets, a similar percentage on fruits, about 8% on vegetables and about 4% on tea, coffee and cocoa etc.

It is doubtful whether any satisfactory standard schedule of expenses can be evolved in India considering the different independent variables such as the taste and likings of individuals, availability of different edibles, the ever-fluctuating market rates and, last though not the least,

[12] Concepcion, I. (1937), *Philippines Journal of Science*, Vol. 62, No. I, p. 98.

the religious beliefs, prejudices and traditional dietary habits. But despite these disabilities appropriation of expenses under different items of food budget with reasonable deviations on either sides may help to determine adequacy or otherwise of a diet without making elaborate calculation as to the intake of the proximate principles etc. per c.u. in grammes or international (vitamin) units per diem.

TREND OF DIETARY HABITS

Though the dietary habits of any section of people are guided to a considerable extent by factors beyond their control yet an analysis of the trend of selection of food by an average housewife is of extreme importance and not only enables the investigator to judge whether maximum benefit is being derived by the householder from the money spent on food but also helps to impart valuable information about the availability of edibles in different localities.

Cathcart and Murray (*loc cit*) were probably the pioneers to demonstrate the importance of stating the results of dietary surveys in terms of actual foodstuff consumed. The present author[13] made an attempt some time ago to analyse the trend of dietary habits exhibited by the University students of Patna. In the present study the data have been worked out in greater detail and they reveal some useful and interesting information. Cereals and pulses have been classified in one table (Table IV), non-leafy vegetables in another (Table V), a third (Table VII) deals with fats and oil and fruits and nuts, and finally the fourth (Table VIII) with animal proteins, *e.g.*, milk and flesh foods. Each of these four tables has been made up of two components. The left-hand component gives the number of families in each of the 8 income group consuming a particular item of food and the right-hand component gives the percent of total weight of a particular item of food in

[13] Mitra, K. (1939), *Patna Journal of Medicine*. Vol. XIV. Part I, pp. 1—4.

TABLE IV.

Trend of consumption of different cereals and pulses in each family group.

English or Hindi* name of the edible.	Latin name.	Number of families in each group consuming a particular item of food. A *(110)	B (35)	C (19)	D (13)	a (74)	b (42)	c (41)†	d (37)	Percent of total weight of a particular item in its class of foods consumed in each group. A	B	C	D	a	b	c	d
CEREALS:—																	
Home-pounded parboiled rice	Oryza sativa ..	109	35	19	11	64	37	32	34	95·2	86·6	76·8	53·5	77·6	75·1	50·0	57·2
Raw milled rice	" ...	3	2		2	11	9	10	6	0·1	0·9	...	7·1	15·6	16·4	23·8	3·2
Puffed rice ...	" ...	2	...	...	1	3	2	1	17	3	...	..	0·1	3	0·2	3·2	5·5
Wheat flour ...	Tricitum vulgare	36	22	16	12	48	20	35	36	3·9	11·5	22·1	36·8	6·5	9·3	22·9	33·9
Soojee ...	Samolina ...	3	3	1	3	2	1	4	2	0·1	0·2	0·1	0·5	0·2	3	0·1	0·2
Maize. ...	Zea mays ...	17	5	5	7	1	...	...	...	0·7	0·8	1·0	2·0	0·1	...	...	...
PULSES:—																	
Red gram ...	Cajanus indicus...	96	34	19	13	69	37	40	30	82·4	82·3	82·3	79·5	74·5	68·5	61·3	30·1
Bengal gram ..	Cicer arietinum	8	5	3	5	28	11	8	27	2·5	3·1	2·4	6·0	5·5	3·2	3·8	15·8
Black gram ...	Phaseolus mungo.	16	6	3	...	3	2	15	22	3·5	3·4	5·1	...	0·5	1·3	8·5	13·3
Lentil ...	Lens esculenta ...	29	9	6	6	30	20	18	25	7·0	6·9	9·0	11·4	14.5	19·5	16·4	15·4
Green gram ...	Phaseolus radiatus	12	5	2	3	...	3	14	29	3·0	4·3	1·2	2·4	...	1·9	10·0	24·5
Khesari ...	Cicer arietinum...	2	..	...	1	10	7	...	...	1·6	...	...	0·7	4·7	5·6	...	...
Peas ...	Pisum sativum...	...	...	...	...	1	...	...	1	...	...	...	...	0·3	...	...	0·9

* Hindi names in italics.

† Figures inside parenthesis represent total number of families.

its own class (*e.g.*, cereals, pulses, flesh foods etc.) consumed in each of the groups.

Cereals.—Home-pounded parboiled rice was found to constitute the bulk of cereal foods consumed. Raw milled rice was popular at Jharia with a few families, but very little was consumed at Jamshedpur. A small percentage of families in the lower income groups consumed wheat flour; with the rise in income level more and more of this food was consumed. *Soojee*, tender maize (baked on open fire) and puffed rice were used as snacks.

Pulses.—Except in group (d) red gram or *rahar* constituted from 60 to more than 80% by weight of all the pulses. Next in order of preference came the *massoor* or lentils. Small amounts of Bengal gram or *boont* and green gram or *mung* were consumed. Black gram or *urid* was mainly used for preparation of *bari* or small crumpets. The use of *khesari* was generally limited to the lowest income groups. Peas are rarely used as pulses (*i.e.*, for the preparation of gruel) but 2 families were noticed to partake of this food.

Non-leafy vegetables.—The potato was undoubtedly the most popular vegetable constituting from 27 to 63% by weight of the total non-leafy vegetables consumed in the different groups. The other popular vegetables were colocasia, ridge gourd, brinjal, bitter gourd and *parwar*. *Parwar* is a dearer food than *Kundri*, its nearest approach in appearance and taste. There is a slight tendency for increased consumption of this green vegetable (*parwar*) with a rise in income level. Cluster beans and string beans were in the majority of cases obtained from the kitchen gardens of the respective consumers. Wood apple, hog plum and tomato were consumed as chutney or appetisers. Tender shoot of bamboo was consumed by one aboriginal family. Tender jack fruit when well cooked in the curry are supposed to resemble mutton and this fact amounts for its consumption by the upper income groups.

TABLE V.

Trend of consumption of different non-leafy vegetables in each family group.

English or Hindi* name of the edible.	Latin name.	Number of families in each group consuming a particular item of food.								Percent of total weight of a particular item in its class of foods consumed in each group.							
		A (110)	B (35)	C (19)	D (13)	a (74)	b (42)	c (41)	d †(37)	A	B	C	D	a	b	c	d
NON-LEAFY VEGETABLES:—																	
Potato ...	Solanum tubersosum	57	23	18	13	35	32	37	37	27·2	23·8	33·1	43·4	44·8	63·3	50·8	42·0
Colocasia ...	Colocasia antiquorum	37	12	6	7	2	4	8	3	8·2	6·0	4·3	4·3	1·0	1·5	3·0	0·6
Radish ...	Rabhanus sativus ...	...	...	...	1	1	1	3	1	...	...	...	0·3	0·6	0·6	1·1	0·1
Pumpkin ...	Cucurbita maxima ..	8	3	3	1	2	1	4	10	2·0	2·6	2·6	0·3	0·4	2·5	0·8	5·0
Ridge gourd ...	Luffa acutangula ...	28	16	8	10	15	10	9	5	7·8	11·7	7·6	5·4	25·5	9·7	3·8	2·4
Ash gourd ...	Benincasa cerifera ...	11	...	...	1	...	..	1	3	5·0	...	...	0·8	...	...	0·1	1·2
Nenua ...	Luffa aegyptica ...	...	...	12	...	6	1	4	...	...	...	10·7	...	2·7	0·7	0·8	...
Patol or *Parwar*	Trichosanthesdioica ...	5	3	5	8	8	10	24	27	1·0	0·6	6·7	5·8	5·4	8·6	8·3	11·5
Kundri ...	Cephalandra indica .	70	20	...	...	...	...	...	...	18·4	13·7	...	...	...	...	...	...
Ladies finger ...	Hibiscus esculentus ...	50	16	10	11	..	...	4	2	12·9	12·5	7·3	9·8	...	...	1·5	0·5

* Hindi names in italics.

† Figures inside parenthesis represent total number of families.

English or Hindi* name of the edible.	Latin name.	Number of families in each group consuming a particular item of food.								Percent of total weight of a particular item in its class of foods consumed in each group.							
		A *(110)	B (35)	C (19)	D (13)	a (74)	b (42)	c (41)†	d (37)	A	B	C	D	a	b	c	d
String beans ...	Vigna catiang .	17	8	7	4	...	2	...	3	1·6	2·4	2·3	2·7	...	0·4	...	0·5
Brinjal ...	Solanum melongena	18	11	10	11	2	5	15	32	5·5	3·7	7·2	12·5	4·5	5·6	16·9	17·4
Tender jack fruits ...	Artocarpus integrifolia	...	...	...	...	...	...	...	3	...	...	...	...	...	...	...	3·7
Kheksa or *Kankrol* ...	Momordica chochinchinensis ...	14	4	9	9	14	5	..	...	1·0	1·2	4·7	6·5	13·1	3·0	...	...
Cauliflower ...	Brassica oleracea botrytes ...	...	...	..	...	...	...	...	2	...	...	...	...	...	...	...	1·0
Green plantain	Musa paradisiaca ...	...	2	2	4	...	..	3	...	...	0·6	0·9	1·5	...	...	0·7	...
Wood apple ...	Feronia elephantum...	2	1	4	3	...	...	...	...	0·2	0·3	2·0	1·2	...	...	...	...
Hog plum ...	Spondios mangifera...	1	...	...	...	...	...	...	...	0·2	...	...	...	...	...	...	...
Tender shoot of bamboo ...	Bambusa arundinacea	1	...	...	...	...	...	...	...	3	...	...	...	...	...	...	...
Tomato ...	Lycopersicum escubutum ...	...	5	2	...	...	...	7	27	...	1·1	1·5	...	...	...	8·8	10 6
Turnip ...	Brassica rapa ...	...	...	.	1	...	...	...	...	...	..	...	0·3	...	...	...	...
Cluster beans...	Cymopsis psoralioides	...	...	...	1	...	...	...	1	...	...	...	0·4	...	...	...	0 3
Bitter gourd ...	Momordica charantia	45	18	13	9	4	6	11	8	9·0	9·8	8·8	4·8	2·0	4·1	3·4	3·3

* Hindi names in italics.

† Figures inside parenthesis represents total number of families

TABLE VI

Consumption of non-leafy vegetables other than potato in the different groups.

Group indices.	Families consuming the following number of non-leafy vegetables other than potato.					
	0 to 3		4 to 6		Over 6	
	Actual.	Percentage	Actual.	Percentage	Actual.	Percentage
Group A.	70	63·6	39	35·5	1	0·9
Group B.	19	54·3	15	42·8	1	2·9
Group C.	6	31·6	12	63·1	1	5·3
Group D.	1	7·7	9	69·2	3	23·0
Group a.	73	98·6	0	0·0	1	1·4
Group b.	37	88·1	5	11·9	0	0·0
Group c.	29	70·7	11	26·8	1	2·4
Group d.	19	51·4	14	37·8	4	10·8

The Technical Commission on Nutrition of the League of Nations[14] enunciated a 'general principles that variety in diet tends to safety, provided it contains a sufficiency of the protective type of food materials.' Consequently an attempt was made to assess the influence of income on the variety (number) of the non-leafy vegetables consumed other than potato. The results have been shewn in Table VI. The figures definitely indicate that with the rise in income level there was a tendency to consume more and more different kinds of non-leafy vegetables (source of minerals and vitamins).

Fats and oil.—Mustard oil is the common vegetable oil used for culinary purposes, throughout the province of Bihar. Gingelly oil was consumed by families hailing from outside the province. *Mahua* oil was used by aboriginal tribes; it is expressed from the seeds of Mahua (Bassia latifolia). It is interesting to note that with rise in income a larger percentage of vegetable oil was being replaced by *ghee* (animal fat).

Fruits and nuts.—Too little was consumed to justify any lengthy discussion on the subject. Banana, papaya and mangoes grow in plenty in certain parts of this province. Though these fruits are comparatively rich sources of dietary essentials as compared with grapes, apples, pears or pomegranates, the latter group of imported fruits from the North-West are believed to possess the special virtue of increasing vitality and producing pure blood by a large majority of people. Again guava, a locally grown fruit and rich source of vitamin C, was found to be regarded as something unwholesome. Raisins were used in thickened milk preparations. Cucumbers were not found to be popular fruits. The impression during the survey was that local fruits cannot be popularised unless the minds of the people, particularly those belonging to the upper social class, can be disabused of the alleged virtues of the more costly imported fruits.

[14] *Quarterly Bulletin of the Health Organisation*. League of Nations (1936). Vol. 5. No. III. p. 408.

TABLE VII.

Trend of consumption of different Fats and Oils and Fruits and Nuts in each family group.

English or Hindi* name of the edible.	Latin name.	Number of families in each group consuming a particular item of food. A †(110)	B (35)	C (19)	D (13)	a (74)	b (42)	c (41)	d (37)	Percent of total weight of a particular item in its class of foods consumed in each group. A	B	C	D	a	b	c	d
FATS AND OILS:—																	
Ghee (Butter fat)	......	21	21	17	12	9	13	29	36	19·5	38·8	59·7	55·6	8·7	20·1	46·6	48·7
Mustard oil	Brassica juncea	93	32	19	13	74	42	37	37	69·3	53·6	49·3	44·4	91·3	79·9	53·4	51·3
Gingelly Oil	Sesamum indicum	11	3	...	..	...	...	...	...	9·1	7·6	...	...	...	...	...	...
Mahua Oil	Bassia latifolia	1	...	...	...	...	...	...	...	2·1	...	...	...	...	...	...	...
FRUITS AND NUTS:—																	
Mangoes	Mangifera indica	4	2	4	4	..	1	6	3	37·7	18·1	36·0	23·2	...	10·0	24·8	2·1
Indian pear (*Nash-pati*)	Pyrus communis	1	...	3	5	...	...	1	...	2·6	...	11·4	11·0	...	...	...	...
Apple	Pyrus malas	1	...	1	4	...	...	1	...	2·6	..	2·8	6·7	...	...	0·6	...
Cucumber	Cucumis sativus	1	2	1	...	...	...	...	...	10·4	45·8	5·6	...	..	...	...	...
Banana	Musa sapientum	3	1	4	4	...	3	9	19	23·4	3·6	11·1	9·5	...	77·5	26·9	27·6
Pistachiount	Pistacia vera	...	...	...	...	...	...	...	1	...	...	...	...	...	...	...	0·8
Coconut	Cocos nucifera	2	...	...	1	...	...	..	...	23·2		...	0·5	...	...	...	...
Grapes (Indian)	Vitis vinifera	...	3	2	9		...	1	1	...	26·5	6·1	30·7	...	...	0·9	0·1
Guava	Psidius guyava	...	1	3	2	...	1	1	...	...	6·0	11·7	5·1		12·5	1·2	...
Jack fruit	Artocarpus integrifolia	...	...	1	...	...	...	...	...	...	...	13·9	...	...	...	...	...
Raisins	Vitis vinifera	...	...	1	1	...	...	...	1	...	...	1·4	0·4	...	...	...	1·7
Indian grape fruit	Citrus grandis	.	...	...	2	...	...	5	1	...	...	...	3·9	...	...	3·0	0·1
Pomegranate	Punica granatum	...	...	...	2	...	...	2	6	...	...	...	9·5	...	...	9·5	3·7
Orange	Citrus aurantium	...	...	...	...	...	...	7	29	...	...	...	...	...	...	31·6	48·7
Papaya	Carica papaya	...	...	...	...	...	...	1	6	...	...	...	...	...	...	1·5	15·2

* Hindi names in italics.

† Figures inside parenthesis represent total number of families

TABLE VIII.

Trend of consumption of different milk and milk products and flesh foods in each family group.

*English or Hindi name of the edible.	Number of families in each group consuming a particular item of food.								Percent of total weight of a particular item in its class of foods consumed in each group.							
	A †(110)	B (35)	C (19)	D (13)	a (74)	b (42)	c (41)	d (37)	A	B	C	D	a	b	c	d
MILK & MILK PRODUCTS:—																
Milk	31	18	16	12	7	12	29	35	99·8	95·4	99·3	93·7	91·5	97·3	99·7	95·3
Curd	1	2	1	4	1	2	...	5	0·2	4·6	0·1	5·1	7·1	2·5	...	3.2
Other preparation of milk	...	...	2	6	1	1	2	7	...	...	0·6	1·2	1·4	0·2	0·3	1·5
FLESH FOODS:—																
Fish	23	15	6	5	6	8	20	25	18·3	19·6	15·4	20·3	5·4	14·4	48·6	61·6
Eggs	1	3	1	1	...	...	3	15	0·1	2·3	0·5	0·7	...	...	2·1	10·3
Goat's meat	42	19	14	5	31	29	29	17	49·9	41·1	76·1	79·0	35·6	58·6	48·1	28·1
Beef	4	3	1	...	...	...	...	...	13·2	35·1	1·8	...	...	...	..	...
Pig's meat	1	...	...	...	25	3	...	...	5·0	...	...	...	58·8	22·4	...	...
Fowl	16	2	2	...	1	3	1	...	10·7	1·9	6·2	...	0·2	4·6	1·2	...
Dried fish	11	...	...	...	...	...	...	...	2·8	...	...	...	...	...	...	...

* Hindi names in italics.

† Figures inside parenthesis represent total number of families.

Milk and milk preparations.—The percentage incidence of families consuming milk increased with the increase in income. Curd or sweet prepared from milk formed only a very small percentage of the total milk consumed as such.

Flesh foods.—Of all the types of flesh foods, goat's meat was found to be the most popular article of diet. The use of pig's meat and dried fish was confined to the aboriginal families. Beef was consumed by Muslims and some of the aboriginals. The consumption of eggs was almost negligible. Of all the flesh foods consumption of fish came next to that of goat's meat. Due to the presence of abstainers (from flesh food) in all the groups no generalisation can be made.

The intake of each of these edibles per c.u. per diem can be calculated easily with the help of Tables IV to VII basing the calculations on the figures supplied in Table IX for the consumption of each class of foods in the different groups in ounces. Table IX has been compiled from previous communication by the author[3&4] referred to, at the beginning.

TABLE IX.

Average intake per c. u. per diem in ounces in each of the groups.

Class of foods	Gr.(A)	Gr.(B)	Gr.(C)	Gr.(D)	Gr.(a)	Gr.(b)	Gr.(c)	Gr.(d)
Cereals ...	23·9	24·4	22·1	21·0	23·6	27·4	22·8	16·9
Pulses ...	2·2	3·1	3·8	3·4	4·2	3·9	4·0	3·9
Non-leafy vegetables ...	2·3	2·7	5·5	6·2	1·9	3·6	7·0	9·1
Oil and fats ...	0·5	0·8	1·3	1·8	0·5	0·7	1·5	2·1
Flesh foods ...	0·6	0·7	1·3	1·0	1·4	1·2	1·7	2·3
Milk and milk product ...	0·5	1·4	2·6	5·7	0·4	1·6	6·2	10·2
Fruits and nuts	0·1	0·3	0·9	0·9	nil	0·1	0·9	2·6

SUMMARY

The data of food intake in 177 working class families at Jamshedpur Steel Works and 194 working class families in Jharia

coal-fields were analysed to find out the disbursement of food budget with relation to the income in the family. Further, an attempt was made to find out the trend of dietary habits exhibited in the different income level. The families in each of the two industrial centres have been divided into 4 groups in the sliding scale of income level. Families with monthly income above Rs. 200 have been excluded.

It was found that with the increase in income the expenditure on food increased though the percentage of income spent on food diminished. This percentage was found to be a little over 70 in the lowest income group diminishing to a little above 40 in the highest income level.

The average daily income per consumption unit varied between 3·1 to 14 annas in the Jamshedpur families and between 2·9 to 5·4 in the Jharia families. Another interesting feature was that with the increase in income the average number of consumers per family also increased.

Analysis of the distribution of expenditure on the different classes of foods revealed that in the lower income groups about two-thirds of the total expenses were spent on cereals and pulses; with the rise in the income level this percentage became less and till in the upper group it fell to less than one-third.

The percentage incidence of expenditure on non-leafy vegetables, fats, fruits, milk, sugar and flesh foods (with slight exceptions) was found to maintain a positive correlation with the income level. Curiously enough expenditure on leafy vegetables showed the opposite except in the case of one group of families.

Home-pounded parboiled rice formed the main bulk of the cereals consumed. Red gram was the most popular pulse, potato the most popular vegetable, mustard oil the most popular fat, and goat's meat the most popular flesh food.

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THE ELASTICITY OF RECIPROCAL DEMAND AND TERMS OF INTERNATIONAL TRADE

BY

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This paper proposes to examine a recent criticism of certain propositions of Marshall concerning the relation of the elasticity of reciprocal demand and terms of international trade, and to offer a general solution of the problem. Marshall, it will be remembered, considers the equilibrium of trade between two countries, E and G, and asks what happens if the demand of one of the countries, *e.g.*, E, for the other country's goods in general increases or decreases. Obviously an increase of demand turns the terms of trade against E, and the opposite happens if there is a decrease of demand. But how far does the movement go? The answer, Marshall says, depends upon the relative elasticities of demand of the two countries for each other's goods. On the assumption that the demand curves of both the countries belong to the 'Normal class,'—every point on the curves representing, that is to say, an elasticity greater than unity,—Marshall lays down the following propositions.[1]

Regarding an *increase* of demand:

A. The elasticity of E's demand curve being given, the more elastic the G-curve, the less favourable are the terms of trade to G and the less unfavourable to E; and *vice versa.*

B. The elasticity of G's demand curve being given, the more elastic the E-curve, the larger is the expansion of both exports and imports and

[1] Cf. Marshall, *Money, Credit and Commerce,* App. J, Secs. 4, 5 and 6; also Chap. VIII.

the more unfavourable are the terms of trade to E, her exports increasing in a greater ratio than her imports.

Regarding a *decrease* of demand:

C. The elasticity of E's demand curve being given, the more elastic the G-curve, the less unfavourable are the terms of trade to G and the less favourable to E; and *vice versa.*

D. The elasticity of G's demand curve being given, the more elastic the E-curve, the larger is the contraction of both exports and imports, and the less favourable are the terms of trade to E, her exports decreasing in a smaller ratio than her exports.

Propositions A and C do not cause any trouble. Whatever may be the nature of the increase or decrease of demand on the part of E for G-goods, in so far as its effect depends upon the elasticity of the foreign curve, the conclusions are unambiguous. The increase of demand, for example, leads to an expansion of the volume of trade. Now, E's demand being given, this expansion will be the larger, the more elastic G's demand is; and the larger the expansion of trade, the higher up on E's new demand curve lies the new point of equilibrium and the less unfavourable are the terms of trade for E and the less favourable for G. Marshall's propositions in this context remain undisputed, and need not, therefore, detain us.

In so far, however, as the effect depends upon the elasticity of E's own demand curve, the conclusions are less straightforward, and they have led to a rather serious misunderstanding. Propositions B and D have recently been challenged. Prof. Viner, following Graham, has declared them to be wrong.[2]

[2] Cf. Graham, "The Theory of International Values," *Quarterly Journal of Economics*, XLVI (1932); and Viner, "Studies in the Theory of International Trade," pp. 544-45. Viner, it should be noted, does not directly examine Proposition D. But it is not difficult to see his attitude by implication.

We shall first examine the case of an increase of demand. As Viner's presentation of the problem is more precise and hence easier to handle, we shall take his construction for examination, although the comments that will be made will apply equally to Graham.

Marshall establishes his propositions with the help of the following diagram.[3]

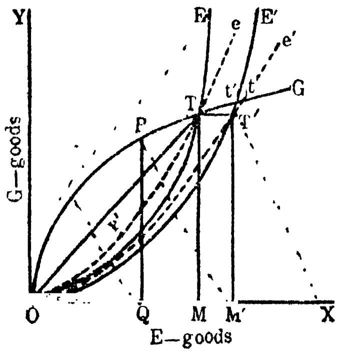

FIG. 1

G-goods are measured along the vertical axis, and E-goods along the horizontal axis. OG and OE are the reciprocal demand curves of G and E respectively, each representing at any given point the total exports the country in question is just willing to offer against a given total of imports. Thus P on OG indicates that G is willing to offer as much as PQ of her own goods against OQ of E-goods, while P′ on OE indicates that E is willing to export OQ of her goods if only she gets P′Q of G-goods. Equilibrium of trade takes place at T where the two curves intersect. In equilibrium OM of E-goods is exchanged for TM of G-goods, the terms of trade being $\frac{TM}{OM}$, or tan $\angle$TIM E's demand now increases, and she is willing to offer, let us say, one-sixth more than the previous amount of her goods for any

[3] For the sake of uniformity I have altered the lettering, where necessary, in this and also in the following diagrams.

given amount of G-goods. E's demand curve shifts to the right and passes through a point T′, so taken on a horizontal line from T that TT′ is equal to one-sixth of OM. As the curve OG represents, according to hypothesis, an elasticity of demand greater than unity, T′ must lie below OG, as shown in the figure. Now, whatever may be the shape of the original E-curve, if it passes through T, the corresponding curve representing the same increase of demand must pass through T′. The new equilibrium, therefore, takes place at a point where OG intersects the new E-curve as extended beyond T′. A number of such curves corresponding to different shapes of the original E-curve can be contemplated, and the position of new equilibrium can be shown to depend upon the shape of such curves. t and t′ are two alternative equilibrium points, both of which represent terms of trade less favourable to E than $\frac{\text{TM}}{\text{OM}}$. Yet at t where OG intersects the relatively more elastic E-curve, the terms of trade are more unfavourable to E, and the volume of both exports and imports larger, than at t′ where OG intersects the relatively less elastic E-curve.[4]

Prof. Viner confutes these propositions in terms of the following construction.

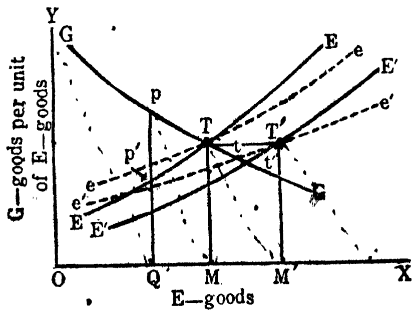

FIG. 2

On the vertical axis Viner represents the terms of trade (G-goods per unit of E-goods), and on the horizontal

[4] As a rule, the flatter the curve the more elastic is the demand that it represents.

axis the quantity of E-goods. GG is G's demand curve showing, for example, that at a price, TM (G-goods) per unit of E-goods, G demands OM of E-goods. As the price falls, G's demand expands. GG is, therefore, downward-sloping. Further, as G's demand for E-goods has an elasticity which, according to hypothesis, is greater than unity, the total expenditure of G in terms of her own goods increases as the price of E-goods falls. On the other hand, E's demand (or supply) curve, EE, is upward-sloping, indicating that at higher prices of E-goods—or, in other words, at lower prices of G-goods in terms of E-goods—E is willing to buy more of G-goods, and—the curve being 'normal'—further that a larger quantity of G-goods is demanded against a larger total expenditure in terms of her own goods.

A formal, though not any material, difference between these 'terms of trade' curves, as Viner would call them, and the Marshall curves should be noticed. On OG (Fig.1), for example, is given the total of G-goods, as measured on the vertical axis, that G is willing to offer for a given total of E-goods measured on the horizontal axis, the ratio between the two amounts being the rate of interchange or the terms of trade. On GG (Fig. 2), on the other hand, we get the rate of interchange (G-goods per unit of E-goods) and the total of E-goods demanded at each rate straightway; but the total offer of G is given by the rectangle formed by the two coordinates at a given point. Similar considerations apply to the E-curve. Thus for an amount OQ of E-goods, G is willing to offer as much as $PQ \times OQ$, while E is just willing to accept $P'Q \times OQ$ of G-goods.

The equilibrium is at T where the two curves intersect. When E's demand increases the E-curve shifts to the right " by a uniform *percentage* at all points on the original curve." E′E′, the new curve, according to Viner's construction, is such that if from T on EE a horizontal line is drawn which cuts it at T′, then $\frac{TT'}{OM'}$, or $\frac{MM'}{OM}$ represents the given percentage by which the demand increases. Thus whatever may be the shape of the original curve, if it passes through T, the corresponding curve representing the same increase

of demand will pass through T′. The new equilibrium takes place at a point where GG cuts the new demand curve of E. Taking two alternative hypotheses concerning the elasticity of the original E-curve Prof. Viner shows that t, the equilibrium point associated with e′e′ which is the more elastic curve, represents a relatively less unfavourable rate of interchange to E than t′ which is associated with the relatively less elastic curve, E′E′. Since the curve GG is 'normal', it can also be easily deduced that a larger volume of exports and imports is associated with a less elastic than with a more elastic E-curve.

All this is surely opposed to Marshall's findings. Yet that does not mean that there is anything wrong in Marshall's construction. Prof. Viner's own findings are all right so far as they go. But he is seriously mistaken in thinking that they also prove that Marshall is wrong. The charge that he brings against Marshall's diagram in this connection[5] is also entirely unwarranted. For, Prof. Viner is unaware of the fact that his findings are based on an assumption concerning the nature of E's increase of demand which is different from Marshall's assumption. It is true that both refer to an increase in E's offer by a uniform percentage. But, whereas in Viner's construction the increase is shown against a given *price per unit*, in Marshall's construction it is considered in relation to a *given volume of imports*. TT′ in Viner's diagram (Fig. 2) measures the increase in E's offer with reference to the old

[5] "The unnecessary complexity of Marshall's diagram seems to have concealed from him the fact that it provides no answers to the questions which he was putting, for the diagram . . . shows three *original* English curves, different in locus as well as elasticity, and fails to present a comparison of the effects of an *increase* in an original English curve according as that original curve has high or low elasticity" (*op. cit.*, pp. 545-46).

It is difficult to see what Prof. Viner means by all this. Marshall's lettering in Fig. 12 (*Money, Credit and Commerce*, p. 343) has been a little unfortunate. The curve *a*E has just a chance of being confused with the original curve OE in Fig. 11. Maybe it is this that has misled Prof. Viner into thinking that *a*E, *a*E′ and *a*E″ in Fig. 12 are continuations of three original English curves. But he should have noticed that these curves pass through

equilibrium price, TM,—whereas in Marshall's diagram (Fig. 1) it measures the increase with reference to the old equilibrium imports at T,—the price per unit obtaining there, namely, $\frac{T'M'}{OM'}$, being less than the old equilibrium price, $\frac{TM}{OM}$.

It is surprising that Prof. Viner should have failed to notice this. If he had correctly represented Marshall's position he would have observed that his own curves also yielded results corroborating just those propositions that he thought he disproved. The Marshall case as represented on the Viner diagram would stand as follows.

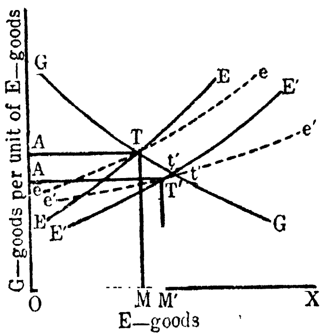

FIG. 3

GG is again the demand curve of G, and EE the relatively less elastic demand curve of E. TM is the equilibrium price per unit of E-goods in terms of G-goods; OM, the total volume of exports, and AOMT, the total volume of imports of E. Now E's demand increases in such wise that E is willing to offer one-sixth more of her

a (corresponding to our T'), and thus represent E's demand under new conditions.

Personally I feel convinced that the curves which Marshall introduces in this context,—Integral Demand Curves, as they are generally called,—are neither unnecessarily complex, nor do they conceal any matter which Prof. Viner might want to bring out. The analysis contained in the present paper will be itself sufficient evidence, I hope, of the potency of these curves. On the other

goods against a given volume of imports in terms of G-goods. To get the point which will represent this increase of demand with reference to T, take a length $MM' = \frac{1}{6}$ OM, and draw MT' perpendicular upon the horizontal axis, so that A'T'M'O = ATMO, or $M'T' = \frac{6}{7}$ MT.[6] T' is then the required point. The new curve representing the given increase of demand will pass through T'. For a given volume of imports, A'T'M'O (= ATMO) of G-goods, E is now willing to offer OM' (= $\frac{7}{6}$ OM) of her own goods. And this is precisely the hypothesis of Marshall. Thus any E-curve passing through T, the original equilibrium point, when shifted in view of the given increase of demand, will pass through T'.

Now, it should be noted—and this is vital for the validity of Marshall's propositions—that T' must lie below the G-curve. According to hypothesis, GG represents an elasticity of demand which is greater than unity. The total expenditure of G at lower prices of E-goods is, therefore, larger than at higher prices. This means that the rectangle formed by the coordinates of any point on GG to the right of T must be greater than ATMO. But T' which lies to the right of T has coordinates forming a rectangle which, as we have seen, is equal to ATMO. Therefore T'

hand, even if Prof. Viner should feel that they are complex—although that is a matter of opinion—he ought surely to concede that for Marshall's own purposes they were a necessary apparatus. Apart from the question of symmetry to whcih Prof. Viner alludes but does not attach as much importance as Marshall would, there is one rather more important point to be taken into account. As is well known, the so-called Unit Demand Curves that Marshall employs in his study of 'domestic values' are frankly based on the assumption that one of the goods, namely, money—in terms of which all prices are reckoned—has constant marginal utility. It is thus significant that he should have kept them distinct from the type of curves employed in the study of 'foreign trade', where apparently no such assumption was made.

For Marshall's own justification for the use of these distinct types of diagram, see his *Pure Theory of Domestic Values* (London School Reprint, No. 1), pp. 1-2.

[6] $OM' \times M'T' = OM \times MT$. Now, $OM' = OM + \frac{1}{6}$, $\frac{7}{6}OM = OM'$
$\therefore \frac{7}{6}OM \times M'T' = OM \times MT$, or $M'T' = \frac{6}{7}$.

which represents the given increase of E's demand with reference to the old equilibrium point, T, must lie below GG. The rest is simple. As before, have a relatively more elastic curve, ee, passing through T. E′E′ and e′e′, the new curves corresponding to EE and ee respectively, will both pass through T′. t′, the new equilibrium point on the relatively less elastic demand curve represents a relatively less unfavourable rate of interchange for E, and a smaller volume of exports and imports; while t, the new equilibrium point on the relatively more elastic curve represents a more unfavourable rate of interchange and a larger volume of exports and imports. All this conforms to Marshall's findings.

On the other hand, the Viner-Graham propositions, as tested on the Marshall diagram, do stand when the precise assumption on which they are based is adhered to. The assumption, let it be repeated, is that for a given price, E's offer increases in a given percentage.

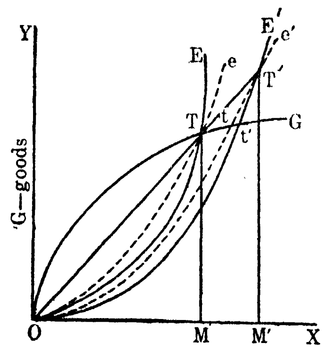

FIG. 4

In the above figure T is as usual the old equilibrium point, and T′ (on OT produced) represents the increase of demand such that, T′M′ being drawn perpendicular upon OM produced, $\frac{MM'}{OM}=k$, where k is the given percentage. The new curve thus passes through T′. t is the new equilibrium point associated with a relatively more elastic

demand curve and represents a relatively less unfavourable rate of interchange and a smaller volume of exports and imports, while t′ which is on the less elastic demand curve represents a more unfavourable rate of interchange and a larger volume of exports and imports.

The demonstrations given above should make it clear that it is all a question of whether T′ which is taken as the standard point representing the increase of demand with reference to the old equilibrium point, T, lies above or below the G-curve. The Marshall case implies that it should be below, while the Viner case shifts it above the G-curve. Hence the difference in their findings. To put the matter in plain language, it is a question of the initial impact of the increase of E's demand. If the initial impact is such an increase in the volume of exports (and imports) that the establishment of the new final equilibrium involves a relative contraction thereof, the more responsive (or elastic) E's demand condition is, the less unfavourable will be the final rate of interchange to her. On the other hand, if the initial impact is such that the process towards the new equilibrium involves a further expansion of the volume of exports (and imports), the less responsive E's demand condition is, the less unfavourable will be the final rate of interchange to her. And all this depends upon the nature of increase of demand one has in view. Marshall analyses the latter situation, while Viner, without being aware that he is making a different assumption, refers to the former situation. Viner is thus surely right in his own way; but he is wrong in thinking—as he does—that Marshall is wrong.

The above methods can now be easily extended to an examination of the effect of a decrease of demand. Viner does not examine this aspect directly. Graham does, and reaches conclusions which are again opposed to Marshall's. Here again the difference can be shown to arise from a difference in assumption concerning the nature of decrease of demand.

E's demand decreases. The terms of trade move in favour of E. In Figs. 5 and 6 is represented the case where the volume of exports and imports is relatively larger and

the terms of trade more favourable to E when the demand for G-goods is more elastic than when it is less elastic. T is the old equilibrium point, and T′ represents the decrease

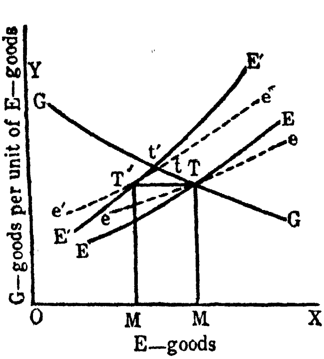

Fig. 5

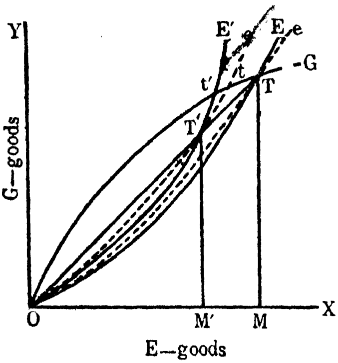

Fig. 6

of demand with reference to T, such that for a given price MT (Fig. 5), or tan $\angle$TOM (Fig. 6), E's offer decreases by MM′, this MM′ being in a given ratio to OM. At t, the new equilibrium point associated with a more elastic demand curve, the volume of trade is relatively larger and the terms of trade more favourable to E than at t′. All this is in accordance with Graham's findings.

But the other possibility is also there.

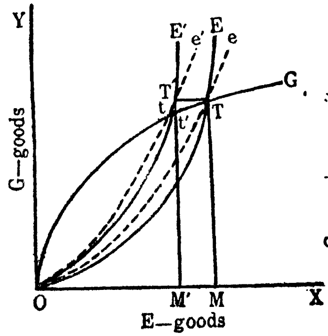

Fig. 7

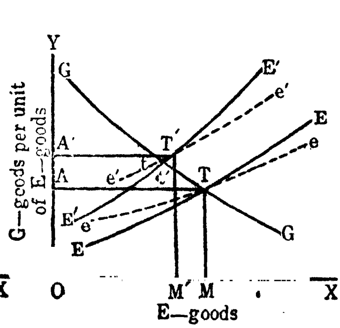

Fig. 8

In Figs. 7 and 8 is represented the Marshall case where the opposite results follow. For a given volume of imports E's offer decreases by a certain given percentage, say, one-sixth. The construction of Fig. 7 is simple. From T draw a horizontal line TT′ towards the left of the original E-curve, such that $TT' = MM' = \frac{1}{6}$ OM. In Fig. 8, T′ represents the same decrease of demand with reference to T, so that $MM' = \frac{1}{6}$ OM, and $OM' \times M'T' = OM \times MT$,—from which it follows that $M'T' = \frac{7}{6}$ MT. In the present case, T′ will lie above the G-curve. G's elasticity of demand being greater than unity, the rectangle formed by the co-ordinates of any point on GG to the left of T is smaller than $OM \times MT$. But according to hypothesis, the coordinates of T′ form a rectangle which is equal to $OM \times MT$.

Both the diagrams yield the same results, as they should. At t, the new equilibrium point associated with a relatively more elastic demand curve, the volume of trade is smaller and the terms of trade less favourable to E than at t′ which is the new equilibrium point associated with a relatively less elastic demand curve.

Here again it is all a question of whether T′ is below or above the G-curve. In other words, it is a question of the initial impact of the decrease of E's demand. If it is such that the process towards the new final equilibrium involves a relative expansion of the volume of trade, Graham's findings are justified. If, on the other hand, it is such that a further contraction of the volume of trade is involved in that process, then Marshall's propositions are found to be perfectly all right. And, of course, Marshall's assumption definitely implies the latter phenomenon.

One feels inclined further to suggest that not only is Marshall not wrong,—in the contexts which are particularly relevant to the study of the problems in question it is Marshall's construction and the propositions that go with it that are based on a more plausible assumption. If the decrease of a country's demand for foreign goods arises from the introduction of obstacles in the form, for example, of *ad valorem* import or export duties, and if an increase of demand arises from the removal of such obstacles—and indeed Marshall had such things in view while he enunciated

the inventions that were taking place in various industries. There was a glut in the market. Everyone complained of a general over-production. Some accused machinery, others found fault with the parsimonious habits of the capitalists and the consequent accumulation of capital and its investment.

J. B. Say.

It is in opposition to this general outcry against production and accumulation that Jean Baptiste Say propounded his famous "Theory of Markets" (dés débouchés), to assert that there cannot be general over-production. To him production and accumulation are the "vents" for commodities. The markets which are glutted with products would be glutted further, if production has been stopped. "Production is *the* cause and the sole cause of demand. It never furnishes supply without furnishing demand both at the same time and both to an equal extent."[2]

Say, of course, is aware of this apparent paradox. He says, "A man who applies his labour to the investing of objects with value by the creation of some utility of some sort, cannot expect that value to be appreciated and paid for, unless where other men have the means of purchasing it. Now, of what do those means consist? Of other values of other products likewise the fruit of industry, capital and land. Which leads us to the conclusion that may at first sight appear paradoxical, *viz.*, that it is production which opens a demand for products."[3]

"Thus to say that sales are dull owing to the scarcity of money is to mistake the means for the cause: an error that proceeds from the circumstance that almost all produce in the first instance exchanged for money before it is ultimately converted into other produce; and the commodity which recurs so repeatedly in use appears to vulgar apprehension the most important of commodities and the end and object of all transactions whereas it is only a medium.

[2] James Mill, p. 195.

[3] Say, *J. B. Principles of Political Economy* (1821): p. 163. Chap. XV, *Passim.* (Cf. James Mill, p. 186.)

Sales cannot be said to be dull because money is scarce but because other products are so."[4, 5]

According to Say, demand is identical with supply; demand and supply are the same phenomena looked at from different points of view. As such, there cannot be any permanent disequilibrium between them. So to speak of a general over-production is a mistake. For, if the market is glutted with goods a, b and c, it simply means that there is deficiency in the production of some other goods, (say) y. It is under-production of y that makes a, b and c to appear to have been superfluously produced. If this y were produced it serves to relieve the markets of their gluts of a, b and c and the crisis is glided over. But this under-production of y proves that the over-production complained of is only partial and not general.

James Mill.

This statement is clearly analysed by his follower James Mill who lays down the two necessary conditions for demand. One is the existence of an equivalent (the wherewithal to pay) and the second is the desire to possess the commodity. Say showed that there is always some commodity or other to serve as a purchasing power in a community, because many producers produce for the market. Say interprets it as the desire to possess other commodities. Mill goes a step further and says that they would not have produced those goods (say again a, b and c) had it not been for their demand for other goods (y). Wants are insatiable and numerous. The human factor in demand is the existence of wants increasing at every stage of acquisition of goods.

Mill elucidates this assertion on the following lines. "A man's demand is equal to what he produces *minus* what

[4] Say, p. 165.

[5] Also Sir Dudley North (*Discourses upon Trade*. 1691) "Money being thus the Common Measure of Buying and Selling everybody who hath anything to sell and cannot procure Chapman for it. is presently apt to think that want of Money in the Kingdom or country is the cause why his goods do not go off; and so want of Money, is the common Cry: which is a great mistake" Reprint of *Economic Tracts* ed. by Hollander.

he consumes. This is also his supply to the community's stock."[6] All such individual supplies put together become the supply in the market. This is the community's 'stock. From this he concludes "If every man's demand therefore is equal to that part of the annual produce or of the property generally which he has to dispose of, and each man's supply is exactly the same thing, the supply and demand of every individual are of necessity equal."[7]

"But if the demand and supply of every individual are always equal to one another, the demand and supply of all individuals in the nation taken aggregately must be equal."[8]

But he admits again, that there can be over-production of some kind of commodities, and this means that some other commodities are in deficiency. This lack of coincidence of supply and demand sets up forces to bring about adjustment again, by movement of capital from goods which have been produced in abundance to goods whose supply is deficient. The commodity which happens to be in super-abundance declines in price, the commodity which is defective in quantity rises. The profits in the one fall and in the other they rise. Capital is drawn back from the article where profits have fallen because price has fallen, to the article where profits have risen due to their rise in price. Thus profits are equalised and the correspondence of supply to demand is brought about.[9]

Opposition of Malthus.

Malthus proves that over-production was not impossible under circumstances of excessive saving and machine production. He does not like, however, to be classed along with Sismondi as an enemy of machinery.[10] But he differs with some 'very able writers' who maintain that though there may

[6] James Mill, p. 188 ff.

[7] Mill, p. 189.

[8] Mill, p. 190.

[9] Cf. The modern form of equilibrium in the works of J. S. Mill, Marshall, Jevons; and the Lausane school.

[10] Malthus, *Principles of Political Economy* (1820), p. 352 footnote. (Cf. His views on Machinery, p. 360.)

easily be a glut of particular commodities, there cannot possibly be a glut of commodities in general.[11]

This doctrine as generally applied appeared to Malthus as to be utterly unfounded and completely to contradict the great principles which regulate the supply and demand. While criticising the theory of equilibrium, he asserts positively that there can be general over-production.

His objection was based on more than one ground. It was not true that commodities are always exchanged against commodities; for a great part of them was exchanged for labour and services. Now there were greater number of commodities on the market produced by labour of men who have been hired with the monies already accumulated. So their power to purchase was not present on the market. Capitalists who produced all these commodities cannot consume them. So this excess quantity of goods on the market confronted with no increase of demand which is 'effectual,' necessarily brings down its own value. This reduction in value reduces *pari passu* the profits of the employer. Consequently, production is curtailed. This reduces further the power of purchasing of the workers. "This is precisely what is meant by the term 'glut' which in this case is evidently general, not partial."[12]

By further analysis he finds that there was a flaw in the reasoning of those antogonists of the general over-production theory.

Say, Mill and Ricardo, firstly, considered that the commodities were the magnitudes whose quantities were to be compared. But they should have taken the question of want into consideration. They did not discover that there is a limit to the wants of individuals.' So in relation to the wants of the people the goods that have been produced by the increasing accumulation become redundant. Their relation to the wants of the society and their relation to labour experiences a most important change.

A second error of these people, Malthus points out, is the neglect of the fundamental human nature, the indolence

[11] *Ibid.*, p. 315.
[12] *Ibid.*, p. 316.

or love of ease. Say and Ricardo think that there is not such a thing as full satisfaction, there being some want always worth striving for satisfaction. People go in for luxuries if all their necessaries are satisfied. But Malthus says that it is not so. He thinks that the farmers after satisfying their demand for necessaries of life, would like to enjoy the leisure instead of continuing to work to obtain luxuries. To him, the efficient taste for luxuries is a plant of slow growth.

The third mistake of these people consists in supposing that accumulation ensures demand, or that the consumption of the labourers employed by those whose object is to save will create an effectual demand for commodities as to encourage a continued increase of production. As against this, Malthus argues that "if the accumulations are used for producing necessaries of life they are sure to outrun consumption which has already been satisfied. There will be a general glut, profits fall, and production and thereby accumulation would be checked."[13] There is no use of producing further and further when profits have fallen, for it will gradually impoverish the producer. Here is a limit imposed upon production and accumulation by the limited extent of effectual demand.

"If in the process of saving all that was lost by the capitalist was gained by the labourer the check to progress of wealth would be but temporary . . . But if the conversion of revenue into capital pushed beyond a certain point must by diminishing the effectual demand for produce throw the labouring classes out of employment, it is obvious that the adoption of parsimonious habits beyond a certain point may be accompanied by the most distressing effects at first and by a marked depression of wealth and population afterwards."

He was not suggesting, of course, that a temporary check to consumption was an evil, for a state might "certainly be ruined by extravagance." In such cases, a diminution of consumption is necessary. His contention is that "no nation can possibly grow rich by an accumulation

[13] Malthus, p. 323.

of capital arising from a permanent diminution of consumption because such accumulation being beyond what is wanted in order to supply the effectual demand for produce, a part of it would very soon lose both its use and its value and cease to possess the character of wealth."[14]

Malthus supported by Sismondi.

On similar lines, but with greater force Sismondi proves the fact of over-production. But his insistence on the importance of 'income' rather than the capital accumulation as the cause of economic activity is a positive contribution to the economic thought of his times. Thus Sismondi says "Income must increase with capital . . . Wages are always in proportion to the quantity of labour in demand which depends on consumption, and this regulates itself not by production or what is wanted as Ricardo, Say and their school pretended, but by income. Each individual buys in fact according to his *means* and not according to his desires."[15] Sismondi says that "by neglecting a quality so essential to be determined Say and Ricardo arrived at the conclusion that consumption is an unlimited power or at least having no limits but those of production while it is in fact limited by income."[16] He reiterates this view in a separate article on National Income and concludes that "Population, production, consumption, accumulation, profit, prosperity, indigence all is (*sic*) connected with income, all is (*sic*) explained by income."[17]

So according to Sismondi production has outrun consumption because of the meagreness of income to buy it off. This appears on the market as over-production when looked at from the point of view of income of the community.

[14] Malthus, p. 327.

[15] Sismondi. *Political Economy and Philosophy of Government* (1847). Notes. p. 41.

[16] *Ibid.*, p. 119 (Preface to *New Principles of Political Economy*).

[17] *Ibid.*, p. 232. (On National Income or the Income of the Community.)

The school of Say was arguing under two assumptions of the insatiability of human wants and the profit motive of the entrepreneur. On the basis of these assumptions they could argue that there is fundamental tendency in the economic system towards an equilibrium. The insatiability of human wants provides always some field into which economic activity might be diverted. Production thus encouraged would provide always some goods as the power of purchasing other goods which perhaps have a tendency to become redundant. On the other hand, the profit motive of the entrepreneur makes adjustments in the supply and demand, by changing the application of resources from one trade to another according to the relative profitability of the various kinds of productions. It is by a process of revaluation at successive periods of time that the equality of supply and demand is secured. Theoretically, the system of equilibrium as explained by Say appears quite sound. The idea of general over-production is discredited in subsequent decades also.

But the obvious fact of over-production and the general 'unsalability' noticed in the market of the last half of the 18th century cannot be denied. Even Say admits this crisis of over-production. But he escapes the difficulty by calling it only partial (á lá his theory) and not a general over-production.

But here one thing might be observed. The theory of equilibrium says that there is a tendency for disturbances to eliminate themselves ultimately. But this settlement might be delayed due to the frictions present in the economic system, and in the interval between two positions of equilibrium a cyclical fluctuation might take place. The school of Say would make allowance for a partial over-production in short periods. If we understand the theory of equilibrium as one stating at the most a tendency of harmony in the long period,[18] we can bring about some

[18] This fact was recognised by both the schools even in their own time, only after a long controversy. "It appears to me that one great cause of our difference in opinion on the subjects which we have so often discussed is that you have always in your mind the immediate and temporary effects of particular changes whereas

reconciliation between this and the cause of disturbances. We cannot accept that the forces are invoked to restore equilibrium whenever a serious disturbance arises in the state of equilibrium. It is during this period of 'restoration' that fluctuations in the activity of trade are set up.

Now, if we take the industrial structure of the society we see that the resources are engaged in the production of various goods, articles of food, clothing, building, etc. This division of labour and specialisation in particular trades, we call, a horizontal cross-section of the industrial activity. When Say was speaking of the equilibrium of supply and demand, he was having in his mind this horizontal cross-section of the industrial society. Here it may be possible to shift resources from the less to the more lucrative trades and secure equilibrium.

But if we take a vertical cross-section of each industry,[19] we find the various stages through which the raw material passes on its journey towards the consumption goods. Taking, for example, the textile industry the various stages are the cotton cultivation, spinning and weaving (to mention only a few), and the demand for these intermediate products is connected with the ultimate demand for clothes. Each of these stages must produce just the quantity demanded by the next immediate stage. The producers of these various stages being different, there is scope for disequilibrium here. If the quantities of these goods in the various stages are not proportionate to the demand in the market for those goods, it is enough to explain the phenomenon of trade cycle in the industrial activity. Some of the modern theories[20] of trade cycle insist upon this disproportionality between the primary and intermediate goods on the one hand and the

I put these immediate and particular effects quite aside and fix my whole attention on the permanent state of things which will result therefrom. Perhaps you estimate these temporary effects too highly whilst I am too much disposed to undervalue them." Letter from Ricardo to Malthus, January 24, 1817, quoted by Keynes in *Essays in Biography*, p. 139.

[19] Haberler, *Money and Business Cycle*, p. 57 ff. (Harris Foundation Lectures on "Gold and Monetary Stabilization"), 1932. Cf. Also Fraser, *Great Britain and Gold Standard*, p. 140.

[20] Hayek, *Prices and Production. Passim.*

consumption goods on the other as the cause of cyclical behaviour of trade.

This idea of the necessity for an appropriate proportion between goods was present in the minds of some of the opponents of classical theory of equilibrium when they said, that proportions and not absolute quantities of goods matter in the economic organisation. Malthus in explaining how the quantity of a commodity when in excess of demand reacts upon its own value, emphasises the necessity for a correct proportion in the production of goods. So to keep up the value of a product at a particular level its supply must be kept in harmony with the demand for it.[21] But this idea though indicated in his work did not receive an adequate treatment in his hands so as to cover the modern industrial disequilibrium. One feature of this theory of equilibrium between supply and demand is that it assumes a barter of commodities in the economic organisation. Its theoretical soundness is the cause of its general acceptance. But what the older economists did was not to face the difficulties inherent in the money mechanism. To them, money was 'neutral.' Though they indicated what will happen under monetary economy, they assumed away the difficulties. They assumed that economic system was so flexible that departures from equilibrium would soon be corrected.

Equilibrium Theory and Trade Cycle Theory.

When we say that modern trade cycle theory starts with the position of equilibrium, we refer to the tendency towards it in a barter system. Thus the theory of equilibrium forms the starting point for the monetary theory of the trade cycle. The changes that take place when money is introduced into the economic system are observed and systematised into a regular monetary theory. Granted barter assumptions, the equilibrium theory proves that no cause for disturbance can arise from within the system. So to explain the fact of

[21] Malthus, p. 376. "It will be found I believe true that all great results in political economy respecting wealth depend upon proportions, and it is from overlooking this most important truth that so many errors have prevailed in the prediction of consequences."

over-production, the foundations of this theory were themselves questioned. If the cause for disturbance does not lie in the system of production and consumption, it must be in the attendant organisation of money. Thus money in bringing together the production and consumption of goods might prove to be the villain of the piece. It was on this basis, that the systems of credit and note issues were questioned and investigated by economists.

On the other hand, though Malthus and Sismondi, correctly recognised that there can be over-production in general, they could not support their contention by theoretical argument. They argued, of course, that due to the tendency for over-accumulation of capital and the indolence and love of leisure on the part of the workers, the phenomena of over-production might result. They argue further, that if over-production of particular goods is possible in various goods it would be nothing else than a general over-production. They contend that the implicit faith of Say in the capacity of goods in forming a vent for other goods is not justified by experience because on occasions we find all sellers in the market without purchasers. Thus where there is over-production of a particular good it loses its character of a commodity and (to adopt Marxian phraseology) simply remains a product.[22] This question was answered by the equilibrium theorists when they said that exchange values of goods adjust themselves in accordance with the supply and demand for them and equilibrium is maintained.

Under-Consumption Theory.

The idea of savings in Malthus and Sismondi bears a close resemblance to the modern idea of savings in the

[22] *Economica*, August 1936, p. 268. Rodan's article, footnote "Much of the controversy referred to above is due to the confusion between products and commodities. Late in their lives Say and Malthus recognised this source of their controversy and the former wrote in a letter to Malthus (1820). "Permettez-moi de remarquer . . . que Je n'ai pas dit que les marchandises (commodities) sèchangeassent toujours contres des marchandises, mais bein que les produits ne échetent qu' avec des produits" and so Say had to admit that after all "Notre, discussion sur les débouchés commence a'n être plus qu'une dispute de mots."

monetary analysis. To Malthus the modern economists accord the first place among the under-consumption theorists. Thus he speaks of the rapid conversion of the income of the capitalists, into capital which will have an effect upon the 'salability' of goods. With every batch of goods a certain amount of consumers' income also is injected into the community. If part of this income is saved the price-level of the consumption goods would fall. On similar lines the modern under-consumption theorists prove that due to saving the system is resulting in a 'business without a buyer.' Saving is necessary but there is a limit to that. There is a certain maximum rate of saving which must not be exceeded. This idea is predominant in the idea of Malthus as can be seen from the passage quoted above.[23]

Savings-Investment Analysis.

Though we cannot read into Malthus all the development that has taken place in the savings-investment analysis (of, for example, Keynes) we can yet see the beginnings of the idea in his work. Accumulation of capital made possible by savings of the capitalists, encourage production without by the same stroke increasing the power of the community to consume. It is on this basis that the idea of savings took a place of considerable importance in the modern economic theory.[24]

The insistence of Sismondi on incomes and not on the magnitude of production as the source of demand forms the groundwork of most of the modern writers who proceed on these lines.[25] According to Sismondi production has outrun consumption because of the meagreness of incomes. So it is over-production looked at from the point of view of the capacity of the community to buy. Incidentally this analysis approaches the modern analysis of the under-consumption theorists and the equation of Foster and Catchings, *i.e.*, Total income = Total costs = Total prices.

[23] *Intra*, p. 7.

[24] Cf. Essays in Biography by Keynes, pp. 145—47.

[25] Cf. Foster and Catchings; Durbin, Meade, etc.

NOTES AND MEMORANDA

Agricultural Economy: Some Vital Aspects

Introduction.

We propose to bring out in this paper the essential traits of Agriculture in the economy of any country. Though the advance of technological sciences has opened out fresh vistas of resource exploitation and the volume of trade between different countries has brought the international exchange economy in the forefront; though the progress of industries coupled with the opening of world markets has led to the extensive growth of material wealth both in volume and variety, yet it has to be admitted that man has to finally settle his account with Nature which is the source of all wealth in the ultimate analysis.

Nature of Agriculture.

Agriculture is a very complex assemblage of human operations. It involves a thorough-going utilisation of every variety of resources from 'non-renewable fund resources to inexhaustible flow resources.'[1] Man utilises in agriculture the living environment, the vital energies of organisms, the solar radiation, the soil and precipitation. At every stage of economic activity it falls to his lot to make the best of that dynamic relationship of substances and forces which Julian Huxley correctly describes as the 'chemical wheel of life.'[2]

Agriculture under machine civilisation.

Agriculture varies in its progress under different patterns of civilisation. In those countries of the world where land is not hitherto brought under the blade of a

[1] E. W. Zimmerman, *World Resources and Industries*, Chapter IV.

[2] *The Science of Life*, Vol. II, Book IV.

machine, agriculture seems to be backward and relatively inefficient from the point of view of *per capita* yield. Such a low and diminishing yield is further coupled with a vicious tendency towards the unrestricted growth of numbers, which eventually leads to starvation and untold miseries. While, on the other hand, within a framework of a machine civilisation agriculture fares efficiently with its progressive *per capita* yield. A portion of these yields, however, is effectively contributed both by the use of inanimate energy and the service industries, such as railways and trucks. Thus agriculturally backward countries of the world are confronted with problems of starvation, while countries with highly mechanised operations are called upon to grapple with the terrors of surplus and consequently we hear of occasional destruction of crops in U.S.A. Ineffective surplus is very often as disconcerting as starvation. In spite of such incidental problems of unmanageable surplus in some parts of the world and rank starvation in others, agriculture is of immense significance in a resource pattern of any country, in so far as it intrinsically contributes to human existence and furnishes raw materials to industries. It is a veritable prop of national economy, particularly in those regions where vegetable resources are in abundance.

The position of agriculture in modern market economy is much affected by the glamour of industrialism. The spread of world-wide exchange economy, the regional and inter-regional division of labour, the exclusive reliance on the market price as the measure of value and the concomitant relevance of scarcity as a determinant of value, all these factors have jointly conspired to jeopardise the position of agriculture. Still, however, if social and political factors are discriminately adjudged along with pure prices and market factors, if agriculture is esteemed as the physical foundation of human society and as a mode of living as well as enterprise, its position then will wellnigh be articulate in the economy of any country. If we venture to criticise the Physiocrates for their overbearing claims on agriculture as the only basis of net-product, perhaps we in our age are guilty of under-rating its vitality and discounting its importance.

Agriculture and Industry.

Agriculture implies a very complicated process of economic activity and hence it demands *ad hoc* canons to judge its efficiency or otherwise. Many people seem to miss such a necessary understanding when they attempt to judge agriculture on criteria commonly employed for judging a business undertaking or an industrial enterprise. Agriculture under the impact of mechanised industries is certainly a business but taken as a whole it is much more than a business. This fact accounts for an obvious need to adopt a different set of values both for agriculture and industries. The differences between agriculture and industry are theoretically concrete and one might suggest the use of the terms 'pure agriculture' and 'pure industry' to draw a line of demarcation between their spheres.

'Pure agriculture' connotes those activities of man which gainfully harness the solar heat, the soil constituents and the precipitation to produce vegetable materials, whereas the concept of 'pure industry' involves that part of human activity which is directed to the utilisation of sub-soil resources and inanimate energy against the vegetable and animal materials to turn out finished products. In pure agriculture we imply a concept of organisms while in pure industry we denote the usefulness of mechanisms. We might depend theoretically upon such a dividing-line, but in practice it is difficult to conceive of such a vast structure of production capable of exclusive divisions into two distinct branches of 'pure agriculture' and 'pure industry.' In economics of production we might sometimes succeed to locate a narrow zone displaying the characteristics of either 'pure industry' or 'pure agriculture,' but on the whole we find in every-day economic life tumultuous operations of agricultural and industrial activities which are so very closely interspersed that a precise division between them becomes a very difficult task. The entire economic structure is like an arena where a colossal conflict between a farm and a factory, country and city, ruralism and urbanism is being continuously fought out.

Some Outstanding Features of Agriculture.

We would like to repeat that agricultural operations are terribly confounding to admit of common standards of judgments on their success or otherwise. Albert Henry emphasises that agriculture and industry depend upon forces and contrive methods quite distinct from each other for their functional operations even though they have identical aims.[3] Elements of business are ever present in agricultural undertaking and the business methods are certainly involved, yet agriculture betrays other peculiar features so outstanding in character that failure to appreciate them would lead to an error of judgment, whatever be the pattern of agriculture. A comprehensive perspective of these features is necessary to appraise functionally the significance of agricultural economy.

(1) The basic foundation of agriculture is the character of the physical environment. The location, the geologic and the topographic traits of the terrain, temperature, moisture, nature of the soil, the direction of the drainage, all of them claim a discernible bearing on the fortunes of agriculture. Evidently, therefore, it utilises many more 'free goods' of Nature in contrast with industries. The influence of a physical environment is almost direct and permanent on all agricultural undertakings. The earth presents a wide variety of physical environments resulting in different patterns of agriculture from country to country. Ordinarily, therefore, agricultural civilisations are cultural adaptations to natural conditions, a fact of inestimable value to show man's inability to completely control Nature.

(2) In agriculture man exercises his control but feebly over the results of his persistent efforts, because all told, agriculture is a biological industry which is directly concerned with a cumulative effect of physical forces on the seeds sown within the bed of the earth. Human control ends with the preliminaries of sowing and actual sowing operations but no human power, however great and scientifically engineered, is conclusively competent to husband effectively the element

[3] Albert Henry, 'General Problems of Agriculture,' *World Trade*, 1930.

of time and the quantitative aspect of harvest. In this case, Nature, not man, is a primary factor. The peasant class has to be armed against numerous hazards in between the growing period and the harvest, such as the scarcity or excess of rainfall, frost, pests and a host of other factors beyond the control of man. The element of risk continues even after the harvest is ready.[4]

Within the structure of money economy the quantity of harvest counts for little while its monetary value takes a premier significance. Profit and loss calculus has to be measured by the yardstick of money and not by the quantity of harvest raised.

(3) Element of time has a vital significance in agricultural practice. Time cycle of production is difficult to be contracted at the sweet will of the producer. Efforts are being made in this direction with the introduction of plant-breeding and particularly cross-breeding technique; but even then such a scientific development is still confined to a small range of botanical and biological spheres. On the whole, man stands helpless before the forces of Nature which delimit the growing period and the ripening period of crops.

As against these limitations it needs confessing that within the framework of competitive economy, radical changes in the time basis of production make for a considerable headway in the market because costs of production are effectively lowered and the goods are floated in the market much earlier than the rest of the competitors. Changes of this nature are conveniently effected in industries rather than in agriculture. Henry Ford successfully captured the automobile market when he revolutionised the time cycle of his automobile production from months to a few days.

(4) Agriculture is apparently a seasonal industry. Agricultural products flood the market only during a particular time of the year. The markets get glutted during that period irrespective of the direction and the volume of demand. Under such conditions the produce is either to be sold out at low prices or to be stored up till the return of favourable times. But the peasants all over the world show.

[4] Report on Agricultural Credit.

a tendency to realise cash immediately on the eve of the harvest in order to liquidate their financial obligations. Necessity, therefore, takes place of discrimination and agricultural produce is disposed of at unfavourable prices. The question of storing is beset with other difficulties. Storing involves cost and presupposes robust credit organisations to finance the farmers in the meantime. This proves to be rather difficult because agriculture operates on a narrow margin of profits, and thus it can hardly expect to command a large amount of capital which conditions the storing of crops, credit activities and a complicated machinery for marketing the crops. The state is, no doubt, a competent agency to undertake such protective measures for the benefit of the agriculturists, and in some of the European countries it has usefully played its part with success, but wherever the state is found apathetic the external agencies invariably intervene and strike a profitable bargain making capital out of the farmers' needs. The consequence is that the agricultural producers are hit hard for no fault of theirs. A country like India evidently suffers under the impact of such circumstantial forces and the peasantry is left out unprotected.

(5) The marketing of agricultural products raises a difficult issue of striking a balance between the quantity supplied and the quantity demanded. The volume of output has to be adjusted to the changing volume of demand either by enlargement or by contraction as the case may be. The enlargement of output is achieved either by increasing the acreage under cultivation or by adopting methods of intensive farming. The former alternative presupposes the availability of high-grade fertile land within the country while the latter is conditioned upon the use made of technological arts. In price economy of our times both of these alternatives ultimately depend to a very great extent on the working of extraneous influences, like the railway and the railway freights, roads and truck conveniences. As against these influences working on the expansion of supply, let us consider the inherent difficulties involved in the process of contracting a supply of agricultural commodities. A fall in price of any agricultural product or a general change in the

habits of consumption requires the cultivators to effect an immediate adjustment in the production of crops whose prices are depressed or which do not command a good market.

Agricultural practices are by nature conservative and hence they scarcely permit so readily an instantaneous adjustment. In fact, the acreage adjustment takes place in a halting manner in response to a change either in the volume or the direction of a demand. Incidental difficulties of this nature which the expansion or contraction of supply involves tell heavily upon the problems of marketing.

(6) The quality of agricultural output also raises an equally difficult problem. It is obvious that there are numerous varieties of seeds in case of every crop and, therefore, a standardised classification of all crops becomes a puzzling affair in so far as the gradations of crops become complicated. The prevalent heterogeneity of seeds leads to unwarranted mixtures and the quality of crops is ultimately tempered with. In this connection, it is interesting to turn to the cotton production in India where the quality of cotton has admittedly deteriorated as a result of seed adulteration. The entire problem, therefore, resolves itself in striking a wilful adjustment between a heterogeneous supply and a certain homogeneity which is very necessary in the market.

(7) The basic resources on which agricultural undertakings thrive are distributed fairly well on many portions of the earth. It is difficult, therefore, to assign specialisation to some one country in the sphere of producing certain agricultural crops. A large number of countries produce the self-same crop wherever the requisite physical conditions are found to be present. Agriculture is, therefore, diffused all over the world as compared to the localised character of industry. Such a diffused nature of agriculture makes room for a great competition among agricultural producers throughout the world.

While it is admitted that an appreciable bulk of agricultural crops is consumed in or near the place of production, the surplus, however, has to be exported and hence it has to weather the storms of the speculative international market. This part of the export trade permanently influences the fortunes of agriculture.

(8) In contrast with industries, agriculture does not utilise power machinery on any liberal scale, just because agriculture being a seasonal operation, it needs machinery for a very short period of the year. In a country of small holdings particularly, the use of machinery is definitely uneconomic. It is expensive in any country if it cannot be utilised for the whole year or if it is not purchased on a co-operative principle, because the investment costs and running expenses of machinery are generally high. On a comparative basis with industrial operation, the machine sometimes brings only a small rise in the money-value of the product of agriculture. When this tendency begins to operate agriculture becomes a losing concern, if other things are not equal.

(9) Whereas the industrial output reaches its maximum during the boom period, the agricultural output suffers heavily in the midst of a boom. So long as the prices are determined by the volume of production, a bumper harvest is necessarily an ominous adjunct to falling prices and depression. In industries, on the other hand, a large volume of industrial products find a profitable market at a relatively high price during a boom period when the purchasing power of consumers shoots up very high.

(10) The aggregate quantity of the first-rate agricultural land is limited and it is now admitted that the law of diminishing returns operates comparatively early in agriculture than in industry. The advancement of science might devise methods to postpone the operation of the law but it cannot be permanently eschewed. On the other hand, industries ordinarily exhibit a tendency towards increasing returns and diminishing costs; but even when a tendency of diminishing returns is felt in industry, it can be easily offset either by effecting a change in the technique of production or by the economy of large-scale production.

(11) Agriculture presents interesting features from the demand side as well. We can roughly earmark the demand for agricultural products in three groups: food, feed and raw materials.[5] Computation of food products is rather

[5] Zimmerman, *World Resources and Industries.*

risky inasmuch as it is difficult to measure with any accuracy the quantity of crops actually entering in consumption. Apparently the demand for food-crops moves in consonance with population movements and to that extent an aggregate demand for food-crops is inelastic. A good many modifications are, however, necessary. The distribution of wealth in a community affects the demand. In a country where a population is wealthy or well-to-do, the consumption of basic agricultural products is low, since milk and dairy products are taken in large quantities along with food-crops; while in a country like India or China where a large bulk of population is on or below poverty-line, the consumption of food-crops becomes certainly high. Moreover, the trends of consumption are vitally affected by the age-composition of population as also by the occupation-composition of population. The present unemployment in the world should have also affected the diets of people.[6]

The trend of consumption sometimes changes with a change in habits or a purchasing-power of people. Very often food articles interchange. A development of dietetic consciousness accompanied by an appreciable rise in purchasing power of masses, concentrated food is likely to replace the normal articles of food consumption. Changes like these are bound to affect the demand side of agricultural products.

The demand for feed-crops is fairly elastic. The supply of feed depends upon the number of animals which a country has to maintain either for their milk products or for meat. The supply side of feed is as fluctuating as that of food and it is evident that the number of animals consuming feed cannot be proportionately increased or decreased in response to an aggregate output of feed-crops. That the cycle of reproduction for animals is longer than the crop-cycle is almost axiomatic. A problem like this complicates the character of agrarian economy inasmuch as every small consideration affects both the stability and the profitableness of agriculture.

The demand for raw materials for industries is primarily conditioned upon the needs and habits of people, their

[6] World Agriculture : An International Survey.

purchasing power and degree of industrial development. Innumerable factors thus intervene to determine the demand for raw materials but on the whole the demand should be considered as fairly elastic.

Our analysis of the demand aspect should clearly suggest that neither the price recessions nor price increases have any appreciable effect on the demand for agricultural products in the long run. Such an inelastic nature of demand for agricultural products when considered in conjunction with a recurring tendency towards rising costs and diminishing returns should possibly explain the decline of agriculture and a consequent glamour for industrialism in the modern world.

(12) Agriculture is diffused everywhere and it is heterogeneous in practice. Its geographical dispersion leaves it isolated and renders effective cooperation of agricultural population hardly possible;[7] and hence perhaps all over the world agricultural interests are politically inarticulate even though a bulk of world's population comprises the tillers of the soil.

Importance of Agriculture in Economy.

The last European war indisputably demonstrated the perils of economic dependence on foreign countries for satisfying the very primary needs of life. The countries of Western Europe and the U.S.A. very pertinently realised the vital importance of a systematised and a fully developed agriculture in the economy of their country. The post-war period brought about a reorganisation of economic structure and the erstwhile realisation on the part of these great powers found an effective echo in their schemes of National Economy and National Self-Sufficiency. It was a period of reorientation. Agriculture asserted itself for a pride of place in the economic reorganisation of these countries. The last war had at least this corrective message to offer to the belligerents.

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[7] Report on Agricultural Credit.

INDIAN CURRENCY AND WAR

In modern times, currency and finance 'govern our destiny far more than the gods of old did when the world was young.' They exercise profound influence on our life. Since the outbreak of War, a good many changes have taken place in the currency and financial policies of the Government of India. We must, therefore, study those changes and analyse their effects on the economic life of the people; for we should note at the very outset how things are being managed by our Government in "India's interests."

Of the two aspects of currency—internal and external—the internal aspect of Indian Currency should first be diagnosed. War tends to affect the internal working of national monetary system in two ways: The first characteristic phenomenon arising from war is a general search for monetary liquidity. This shows itself in a fall in security prices and a rise in interest rates due to the public's desire to convert a larger proportion of its total assets into liquid money. Within the sphere of monetary assets, moreover, a shift takes place from liquid balance to currency notes and from currency notes to cash. In the second place, Government expenditure comes to absorb an increased share of national income, not only in the belligerent states, but also in a great number of other countries where exceptional defence preparations become necessary. The continuous pressure of war-finance on the structure of currency and credit becomes more clearly apparent as time goes on.[1]

Unlike the 1914-War, however, the outbreak of hostilities in 1939, came after a long period of tension. The shadow of war was long there, and it was enough for the necessary preparations. The effect of impending war on Indian Currency was clearly visible; the volume of money was steadily expanding. The percentage of increase from the end of June 1938 to the end of June 1939 was 5 for notes in circulation and 2 for commercial bank deposits. The amount of Treasury bills outstanding was

[1] The League of Nations: *Monetary Review*, 1939-40, p. 34.

(No. IV of 1940) of June 1940 provided for the issue and putting into circulation of Government of India one-rupee notes for supplementing the stock of rupee coins. Notwithstanding anything contained in the Reserve Bank of India Act 1934, one-rupee note was issued by the Government of India under the Indian Coinage Act 1906, and was deemed to be included in the expression "rupee-coin." There was a scarcity of rupee-coins and it was partly to remove the inconvenience caused by the scarcity of a suitable medium of exchange of smaller value than the Reserve Bank notes of lowest denomination, *i.e.*, five rupee. The Government of India therefore released out of the stock, the one-rupee notes printed in 1935 and held in the stock to meet a contingency of another nature, namely, the expected crisis of 1936. One-rupee note was made legal tender as rupee-coins had hitherto been.

Though the Government of India had a large stock of silver, it was considered necessary in view of the rapid absorption of rupee-coins for hoarding, to conserve silver resources as far as possible. In view of the increasing simultaneous demand for quarter- and half-rupees, the Government of India felt that it was extremely wasteful to turn out large quantities of half-rupees of the fineness of eleven-twelfth silver and one-twelfth alloy. The Ordinance (No. VI of 1940) of 26th July, 1940 was accordingly promulgated which adopted for the eight-anna pieces as well the fineness of one-half silver and one-half alloy prescribed previously for the four-anna pieces only. The new half-rupees bearing the date 1940, therefore, were reduced in fineness, but exactly similar in weight and appearance as the old half-rupees. An economy of five-twelfth silver, *i.e.*, about 37½ grains of fine silver was effected in each coin. The old half-rupees continued to be legal tender. Thus five-twelfth silver was removed from both quarter- and half-rupees which in their present form, contain half silver and half alloy.

The Government of India further considered the fate of Victoria rupees. They were worn out, in their opinion, unpopular owing to large number of counterfeits, and hoarded underground in large quantities. In order to

relieve the public of its hoarding habit, the Ordinance of October 11, 1940 declared that Victoria rupee would cease to be legal tender after March 31, 1940, but shall continue to be accepted until September 30, 1941 at all Government Treasuries and Post Offices. The withdrawal of Victoria rupee was a further step towards conserving of silver resources. The internal aspect of our currency, therefore, presents no ground for immediate danger.[4]

Linked as our rupee is with the British Sterling it is natural for us to see what happened to it immediately after the declaration of War. It should be noted that early in the month of January 1939, the British Exchange Equalisation Account in effect had "pegged" the spot rate at a level of $4·68 to the pound, and sterling for the while showed signs of great stability. "At no other time since the suspension of gold parity in September 1931" says a recent publication,[5] "had the pound sterling shown a greater stability in terms of dollars and, therefore, of gold." This stability in terms of dollars came to an abrupt end on Friday, August 25, when dollar sterling rate all of a sudden dropped to $4·35. During the succeeding week, the rate fluctuated widely between $4·40 and $4·10. The Banks and the London Exchange Market were closed on Monday, the 4th September and when they re-opened on September 5th, exchange control had been imposed. The Bank of England's official exchange rates—a selling rate of $4·02 and a buying rate of $4·06 to the pound—became compulsory for all foreign exchange transactions in the United Kingdom. In contrast to the sharp rise in the dollar value of the pound to a level of about $7 during the first week of the 1914-War, the outbreak of hostilities in 1939 was thus marked by a sudden fall in Sterling.

As a result of this depreciation, the countries of "Sterling-bloc" began to sever their link with the pound. On August 28, the Swedish Riksbank and the Bank of

[4] But a dangerous tendency in note-issue against paper securities, *i.e.*, Sterling-securities and Rupee-securities is slowly developing. . Cf. ft. No 2.

[5] The League of Nations, *op. cit.*, p. 18.

Finland discontinued the use of sterling as a basis for their foreign exchange quotations. The policy adopted was with a view to preventing large fluctuations in domestic level of prices and for the maintenance of *de facto* stability in relation to the dollar. The attitude of the Government of India was very strange. She like a most devoted Indian wife—to borrow the simile of humorous Indian speaker—would gladly go to hell or perish for the mere love and devotion she bears to her husband. The Defence of India Ordinance of September 3rd, 1939 paid no heed at all to the stupendous depreciation of sterling in the previous week. The rupee-sterling link remained as fast as it has been for the last ten years, in teeth of immense opposition from the Indians. On the contrary, the Ordinance imposed several restrictions on foreign exchange and sale of securities to the foreigners. And in the beginning of October, a "Notice to Banks" was issued in virtue of which transfers or payment of rupees from a domestic Indian source to a "non-Empire" account must be reported to the Reserve Bank, and dollars due to Indians were to be disposed of to the Reserve Bank at the rate of \$4·02 or 4·04 to the sterling. The regulation made it obligatory on the part of Indians to buy sterling in the controlled market where it sold dearer than in the free market where it might be bought astonishingly cheaper. No consideration was made of the producers, both industrial and agricultural, in India. They were hard hit owing to this policy of the Government. India would have bought sterling at a considerably lesser rate in the free market than that fixed by the Government. For example, when the rate had gone down to \$3·8 and even lower still in the middle of March 1940, they were obliged to offer \$4·02 for sterling. It was a consideration of no importance to our Government. The Government of India however was faithfully following the dictates of White Hall. This policy was apparently followed—it is known to one and all—in order to strengthen and keep up the dollar—sterling rates fixed by the British Government. This gave an undue advantage to Great Britain at the expense of this poor country. The Government of India very generously set its own house on fire for the roasting of Britain's eggs.

The Ordinance of September 3rd, 1939, and the October Notification were measures not sufficient for the purpose of the Government of India. They had secured for the Reserve Bank of India only a part of the dollar remittances. As a further measure, remittances to the United States of America and Canada were banned. The exporters were required to surrender the foreign exchanges representing the fair market value of the goods exported to the Reserve Bank of India. In July 1940, the Central Government further issued a notification calling for a return to be made within one month to the Reserve Bank of India of all securities in respect of which the principal, interests, or dividends were payable in American dollars. This was another step towards securing the complete capitulation of foreign exchanges to the Reserve Bank of India.

A measure designed to husband currency resources was the restriction on imports into British India imposed in May 1940. In taking this step the Government of India fell into line with His Majesty's Government who had already reproduced far-reaching measures of import restrictions. Imports of luxury goods outside the sterling area were restricted, and import of silver forbidden under license. The commodities affected were selected as being those the consumption of which could be kept within limits without damage to any essential Indian interest, having regard in particular, to the extent to which supplies from some countries could be replaced by Indian products or goods imported from other countries in respect of which the foreign exchange problem was less acute.

As a result of increased exports of Indian commodities and large purchase of jute manufactures and other goods by Empire countries, a large sterling balance became available in the Reserve Bank. The sterling balance accumulated because India was selling more than it was buying from abroad, *i.e.*, Empire countries, and not receiving gold in liquidation of difference. The Government of India were to satisfy themselves with receiving the I.O.U.'s of His Majesty's Government. There has been thus a huge balance of these I.O.U.'s in the Reserve Bank of India. It was decided by the authorities to use this surplus for the repatria-

tion of the Sterling-Debt of the Government of India by purchasing sterling stock in London and cancelling it in exchange for a corresponding amount of Rupee paper created in India. By this means, it is said, India's external debt was to be continuously reduced and the amount of interest to be paid abroad each year would be substantially lessened. The Government of India has chosen a very proper time for the repatriation of its debt to Great Britain. The sterling at present is depreciated in terms of dollar (and hence of gold) by more than 10 per cent of its former value. So, if India redeems its debt now, it will pay comparatively more to Great Britain than it would have paid in normal times. This is as obvious as anything; the net loss is more than the actual gain to India. In the opinion of our Government, this is the time when its debt should be redeemed for the reason that 'the interest to be paid abroad each year would be substantially reduced.' To tell the truth, the real intention of the Government is that increased supplies of sterling made available in London, consequent on this repatriation, would enable that Government to keep up the officially announced sterling rate, besides helping the British war-efforts.

The holders of sterling loans were then given the option of transferring their holdings from the books of the Bank of England to the Rupee Registers opened and maintained in India by Public Debt Offices of the Reserve Bank of India. The transferring of sterling loans from the Bank of England to Rupee Registers in India has some significance. Once the sterling is depreciated, the sterling loan of India goes down; this fall in sterling loan is just to the extent to which the sterling is supposed to be depreciated. For example, if sterling has depreciated by 10 per cent, the fall in sterling loan is by 10 per cent. If Indians transfer their holding from the Bank of England to Rupee Registers in India, the Bank of England would be paying considerably lesser amount than that it would pay in normal times. Herein lies the significance of the measure.

The last but not the least in importance is the question of gold export from India. The export of gold from India—a natural sequel to the fixation of sterling link in

1931—has aroused a storm of protest from various quarters. But all this has proved a cry in wilderness. Within each country, gold is required for a sound banking system and paper currency. In view of the fact that almost all countries of the world are hoarding gold with their utmost might, the action of our Government in this respect is very strange. Its door was wide open for the purchasers. The outbreak of war has intensified the situation. Gold export has begun much vigorously. The open door has become still wider. Up to January 1940 nearly Rs. 1·40 crores worth of gold went out after the outbreak of war. The total export, since 1931, has gone up much above the level of Rs. 1·400 crores in round numbers. No step has hitherto been taken; nor is there any ray of hope for its control in near future.

The remarkable effects of currency on the economic condition of the people cannot be over-emphasized. The action of the Government of India in this respect is inconsistent with the economic needs of the country, rather it is quite detrimental to its economic well-being. The Government of India cares more for the British war-efforts and has hitherto harnessed all its currency policies to that end. The Government should reconsider the currency policies and remodel them in the interest of India. We do not decry the present attitude of the Government of India but to help Britain at the expense of India is outrageous and must not continue any longer.

Muzaffarpur, Bihar. MATHURA NAND SINHA.

REVIEWS OF BOOKS

THE INDIAN FISCAL POLICY, by B. P. Adarkar. Pp. xv+619. Price Rs. 15/-. 1941. Kitabistan, Allahabad.

The book divides itself into two parts: Part I, which covers two-thirds of the volume, deals with the actual working of protection in India during the last seventeen years and is largely descriptive but not merely descriptive. Part II is taken up with a review of the entire fiscal policy and ends up with valuable suggestions for the future.

A perusal of Part I leaves the impression on one's mind that Professor Adarkar's main task here has been to prove that (*a*) every industry except coal and oil that ever applied for protection deserved to get it, (*b*) that industries that received protection deserved more protection than was actually given, and (*c*) that every industry that received protection had more than fully justified it.

Take, for instance, the case of the cement industry. In 1924, it asked for an increase of the import duty (revenue) from Rs. 9 per ton to Rs. 25 per ton (protective) on a c.i.f. price of Rs. 60 per ton. The Tariff Board thought that, in view of a reckless rate war then being waged among the different firms and also in view of the general competitive position, the demand was an excessive one, and rather hesitantly and haltingly recommended a moderate range of bounties to be given under certain conditions. The Government rejected the Board's proposals on the ground that the difficulties of the industry were largely caused by cut-throat competition within itself. Baffled in its attempt to get public assistance for covering its own sins of omission and commission, the industry took successive steps towards amalgamation and cartellization and ultimately recovered its normal health. And it made good progress. In the period, 1924—1939, the contribution of the industry to the aggregate internal consumption rose from 75 to 97 p. c. And, yet, Professor Adarkar categorically states that "the objections which the Board raised against the imposition of protective duties do not appear to be sound (p. 334, para. 2). And, again, "In all probability, owing to the adverse effects of foreign competition, aggravated by a high exchange ratio and the depression, combined with those of unhealthy internal competition, the industry would have mostly collapsed. In view of this conclusion one cannot help remarking that the action of the Government in refusing protection to the industry in 1925 was somewhat irresponsible." (P. 342.) But, as the author himself shows (p. 342), the industry has not collapsed. On the other hand, it has grown into a mighty giant and captured 97 p. c. of the home market. Of course, the

shareholders did lose enormous sums of money during the period of internal chaos. But, one fails to see how, in this particular case at any rate, the Board can be blamed for doubting the desirability of protection or the Government censured for refusing protection. Can it not be held, with even greater justification than shown by Professor Adarkar for his own view of the matter, that the Government action was doubly blessed in that it saved crores of public money and at the same time succeeded in compelling the industry to heal itself?

Or, examine the author's judgment on the protection of the iron and steel industry. There can be no doubt that the Tata Iron and Steel Company have emerged successful out of the initial period of trials and errors and experiments and uncertainties, and that they have established the Indian iron and steel industry on a firm foundation. It can also be freely admitted that, in the particular circumstances of India, theirs has been a remarkable and even unique achievement. But, does a scientific study of the working of protection in India call for such an unduly patronising attitude from an Economist, however practical and realistic and more than merely academic he might be, that the errors and mistakes of a firm should be altogether ignored? The Tariff Board in their Reports of 1924, 1926, and 1934, while recognizing the progress achieved by the Tata Iron and Steel Company, pointed out certain errors of judgment, certain mistakes and miscalculations committed by the Company. Professor Adarkar seems to think that it is improper for one even to make the remotest reference to them. It was not, however, so thought by Sir M. Visweswareya, justly famous and respected in India for his constructive genius in the industrial field, who, in October, 1930, after his inspection of the Tata Works as a newly appointed Director, said that the management was seriously defective in many respects and needed drastic overhauling (as reported in *The Statesman*, Mail Edition, Oct. 9, 1930, and quoted by Dey: the *Indian Tariff Problem*, page 230, footnote). After all, an Economist need not be afraid of recognizing hard facts and stating them in plain language. On the contrary, it is his duty to make a precise statement of all the strong and weak points in a particular case, in order that everyone concerned may know what the difficulties are and think out how they are to be met. It is quite natural for a new industry to suffer from many initial handicaps and it is right that it should receive adequate help. But it is also natural for such an industry to commit many mistakes and errors of judgment. To point out such errors is not equivalent to fault-finding. Much less does it mean any condemnation.

Or, again, take the case of the sugar industry. Nobody has ever denied that it is desirable for India to take all proper steps to develop her sugar industry. But, there are many who hold that the entire scheme of protection to the sugar industry has

been hasty and ill-considered. The mere fact that the industry has rapidly grown into a big size within a decade or so is no proof that the right degree of protection has been given. Give a protection of 150 or 200 p. c. to almost any industry, even the most inefficient industry in the country, and it can quickly capture the entire market. But, the most relevant questions are: (1) Was the degree of protection that was given the right one? (2) Has the grant of protection led to any improvement in competitive efficiency? (3) Have the main purposes of protection been even partially fulfilled? Let us take the questions in the reverse order. It was one of the avowed aims of protection of the sugar industry to ensure a good price to the growers of sugarcane, as a measure of special help to the agriculturists in a period of acute depression. The Imperial Council of Agricultural Research as well as the Tariff Board in 1931 used this as the strongest argument for protection. Now, the Board in 1931 estimated that the fair selling price of sugarcane in the beginning would be -/8/- as. per maund and at the end of fifteen years -/6/- as. a maund. It was on this basis that the fair selling price of sugar and the amount of protection to be given were calculated. But, in 1937 the Tariff Board found that the actual price realized by the cane growers during 1935—37 had been only -/3/- as. a maund. Sir (then Mr.) J. P. Srivastava also stated in the sugar conference of 1933 that the cane growers had not received any benefit from the protection that had been granted. Consequently, whatever may have been the other good or bad results of protection in this case, the glaring fact remains that the main objective of policy which was avowedly to keep up the price of sugarcane at a remunerative level has failed of realization. Secondly, the Tariff Board anticipated that, due to improvement in agricultural and manufacturing efficiency, the margin of difference between Java and Indian costs would be gradually reduced. The margin was Rs. 4—9 as. in 1931 and it became Rs. 5—5 as. in 1937. Is this to be taken as an index of progressive efficiency promoted by the wonderful activities of the manufacturers, the Imperial Council of Agricultural Research, the Institute of Sugar Technology and the Provincial Governments under the stimulus of protection? It may be held, as some responsible persons actually do, that the cost differences between Java and India may remain wide for an indefinite period of time but that, all the same, we must be prepared to give a high degree of protection to the sugar industry for an indefinite period, too, in the larger interests of the nation. But, that is a different matter altogether. And, thirdly, if the development of the entire industry including the cultivation of sugarcane has been on sound lines, why is there so often heard this cry of over-production and cut-throat competition? How, again, is one to reconcile the cry of under-consumption of sugar with the demand for higher prices through cartellization? Or, why is there this tug-of-war between the Governments of the United Provinces and Bihar, on the one

hand, which want to keep cane prices reasonably high, and the manufacturers of sugar, on the other, who want these prices to be low? And, last but not least, how is one to explain and remove the striking and dangerous anomaly that the sugar industry has been concentrated in regions where the yield of sugarcane is only 15 to 16 tons per acre as against the 40 to 60 tons per acre of other regions like Madras, Bombay and Assam where the industry has not been able to spread to any but the smallest extent?

II

In his general review of fiscal policy as a whole, Professor Adarkar has been at great pains to show that, in the majority of cases, the protection granted has been of a safeguarding character and not developmental character. Nevertheless, it is seen in the sequel that the industries concerned have not only been safeguarded but also enabled to develop as well and in some cases to develop quite rapidly. Where, then, is the point of stressing the distinction between the two? If it is admitted that protection has largely enabled the (steel) industry to place itself on a sound footing (Adarkar, p. 32), that the phenomenal growth of the sugar industry in recent years has been one of the most remarkable achievements of the policy of protection (p. 194), and that during recent years as a result of protection, the Indian paper and pulp industries have made considerable progress" (p. 273), is it not also at once granted that, in these important cases at any rate, protection has been adequate and successful? If that is so, is there any use quarrelling whether protection has been of a safeguarding or developmental character?

Another important point whict has been laboured by Professor Adarkar is that the first and the second conditions of protection laid down by the Fiscal Commission are inconsistent with each other. But, is it really difficult for an industry to show that it has potential advantages and, at the same time, to establish that, due to the handicap of a later start or due to severe or unfair competition of foreign industries, it cannot grow? The author seems to think that it is very difficult, and sometimes even impossible. But, all the industries that got protection were able to show that they satisfied both the conditions. And the criticism of the triple formula of the Fiscal Commission becomes rather pointless when the critic is forced to admit himself that the success of certain industries has been due, among other things, "to the favourable atmosphere created by the system of protection erected on a thoroughly scientific basis by the Indian Tariff Board" (p. 32).

III

Looking retrospectively at the working of protection, however, one must admit that the total result, though tangible and

solid as far as it goes, should have been very much bigger than it has actually been. But, the smallness of the result cannot, in fairness, be attributed to any defect of the principles laid down by the Fiscal Commission or to any faulty application of those principles by the Tariff Board. The Fiscal Commission investigated the problem at a time when economic conditions all over the world looked like returning to a state of stable equilibrium on the basis of freedom of enterprise and international division of labour. They could not have foreseen, and few others in any part of the world did foresee it either, that all international economic relations would be almost paralysed or that the general structure of international trade would be twisted and distorted, first, by a devastating economic blizzard, and later on, by powerful forces of an autarchic and militaristic character. A strong fiscal policy, however comprehensive and determined it might be, could not cope with the situation. What was required was a thorough re-orientation of the entire national economic policy implemented by an all-embracing plan, in which fiscal policy would only form one of the planks. This was what was done by the advanced nations of the world. And this was not done in India, because her policy was in the hands of an irresponsible government which was fettered by Whitehall control and which was also perhaps largely apathetic. Many would, therefore, agree with the author when he says that there is needed a "comprehensive planning to attack the basic problems of poverty, ignorance and physical and mental efficiency" and that a new fiscal policy would be required as a "potent weapon of national planning" (p. 609). The author is also on firm ground when he suggests that the Tariff Board should have larger functions and powers and should be constituted on a permanent basis, and that the members of the Board should be men of high integrity and ability and should have such terms of appointment as would place them beyond the reach of all temptation.

IV

It remains to be said that the book under review is comprehensive, up-to-date and stimulating. Professor Adarkar has taken great pains to collect and analyse a large mass of valuable data and he has bestowed much hard thinking on many of the important issues involved. And, if he has been a little too harsh on the Fiscal Commission and sometimes on the Tariff Board, and perhaps a little too hasty and light-hearted in his judgment regarding the interests of consumers, his vision of the problem of the immediate future is clear and correct and his concrete proposals regarding the reorientation of India's economic policy and programme are sound. His present book is an important one and it cannot be ignored by any serious student of the subject.

H. L. Dey.

Essays in Monetary Theory, by D. H. Robertson. Published by Messrs P. S. King & Sons, Ltd., London. 1940. Pp, 234. Price 11s. 6d.

Mr. Robertson's essays on the important subject of monetary theory cover the period of a decade before the outbreak of the present war. It is a period almost entirely given over by economists to theorising about money and the monetary aspects of the trade cycle. Mr. Robertson has done a great deal to shape the evolution of thought on the science of money. In these essays he shows himself both a creator and a critic while his style is so lucid in exposition and sparkling with wit that to read him is a pleasure and an intellectual exercise of the first order.

All these essays are not of equal length or of equal importance. Some of them have already seen the light of day while others are making their appearance for the first time. The essays are arranged in such a way as to impart some unity to the whole collection. He assigns a reason for withholding from the fellow-economists up till now a good many of the essays. The reason of course is not to be sought in diffidence, for no Cambridge economist can plead guilty of excessive modesty at any time. In his own words, "Apart from natural indolence, I may perhaps offer as an excuse that I lived for twenty years at Cambridge under the pre-natal shadow of a series of large books by my two masters, from each of which in turn I hopefully awaited that definitive clearing up of the matters at issue which should make any further struggle towards systematic treatment on my own part superfluous."

The first, the largest and the most important essay in the book consists of a critique of Mr. Keynes' theories. He disputes the Keynesion contention that the rate of interest is a purely monetary phenomenon or that it is a sort of a dictator of the economic process. No doubt he is aware of the power that money-holding gives and of the freedom of manoeuvre in loan contracts which contribute an element in the disposition of actual rates. But he is convinced that thrift and productivity do govern the rate of interest.

Mr. Robertson sheds much light on the nature of interest. He has framed illuminating definitions of saving and investment. He has developed the conception of a manifold as against a two-fold margin of individual preference. He has drawn a distinction between to-day's interest bargains and to-morrow's, between the rate of interest as a datum to the individual borrower and a price to the collective borrowers. All these ideas clarify Mr. Keynes' doctrines of liquidity and propensity to consume and convert them into workable tools of investigation.

The author is at his best when he tackles economic fluctuations. He rides the trade-cycle, as it were, with perfect balance and

dexterity. He shows us that no single explanation can account for the swing from prosperity to depression. He passes in review such favourites as speculation, vicious spiral, scarcity of loanable funds, deficiency in the supply of factors of production, diminishing elasticity of demand to individual firms, saturation in certain lines of investment. He asks us to consider in addition the increasing extent to which the banking system figures as a fiscal instrument and its diminishing importance as a supplier of capital to private enterprise. He also traces the effects of population changes and of frequent international conflicts on the economic fabric of society. He is thus driven to the conclusion. "For so far as any single theme may be said to be illustrated by the collection of essays as a whole, it is the difficulty of finding a just mean between regarding industrial depression as a mere phase of a symmetrical oscillation and regarding it as a symptom of a mortal disease."

In recent years there has been a vast spate of debate in the fields of the theory of money, the theory of interest and the theory of trade fluctuation. On close analysis one discovers that the debate has turned partly on questions of the meaning of words and the inter-relation between different modes of expression and partly on matters of substance and on problems of practical economic policy. Edwin Cannon is said to have compared our wrangling economists to a number of Roman augurs disputing over the significance of the entrails of a goose. Mr. Robertson attempts to sit in judgment upon the economic augurs and give us his verdict as to what departments of the whole tangled controversy is primarily concerned with words and what with more substantial issues. He concludes "To suspect that from a long-run point of view Cheap Money may prove a broken reed and Liquidity Preference a bogy is not necessarily to suppose that all is for the best in the best of all possible worlds.

V. L. D'Souza.

Economic Problems of Today, by W. Arthur Lewis. Published by Messrs Longmans Green & Co., London. 1940. Pp. 175. Price 5s. *net.*

In this small book the author deals with the problems "which loom large in contemporary discussion" and "shape. indeed, the very pattern of our lives" but "are not normally understood by average citizens." That a book of this kind is badly needed can admit of no doubt whatsoever. but when there is such a bewildering variety of facts to draw upon and such a wide divergence of views upon every vital point, it is not at all easy to write such a a book.

This book is a commendable attempt of its own kind but cannot give the average citizen and schoolboys, for whom it has been written, an understanding of the essentials of the problems and of the forces which have created them and make them as baffling as they are. That is due to the author clinging to assumptions which, on his own showing, are no longer valid and to his adopting a purely negative approach to the different experiments in economic and social reconstruction.

Mr. Lewis is a pupil of Prof. Robins and adopts the line of thought which the latter has made familiar. He describes briefly the Russian, the German, the French and the American objects and methods of reconstruction and all these appear to him not only full of pitfalls but the cause of their own frustration. He himself does not outline any proposals to reshape 'the pattern of our lives' or point the way to 'new order' of any kind. And that is because he, like his teacher Prof. Robins, believes that all economic evils can be remedied only by the restoration of the 'order of natural liberty.'

The approach in the book being what it is, certain limitations are inherent in it. But it has its merits. It is well written. Ideas are presented in orderly sequence. For the beginner it provides materials which he needs and cannot get without extensive reading. A short list of well-selected books for further reading is given at the end of every chapter. Statements made in the book are not aggressively dogmatic. Only one wishes that if all that is being done to re-order the world is, in the author's opinion, wrong, he could have given some positive suggestions as to what should be done to get out of terrible mess which the world finds itself in. He does commend public works expenditure. But that obviously cannot carry re-construction far. It cannot be a preventive or a positive measure in any sense of the world. It is not even a cure but admittedly, only a minor pallative.

GYAN CHAND.

RAW MATERIALS AND FOOD-STUFFS. Published by League of Nations, Geneva. 1939. Pp. 75.

The volume entitled "Raw materials and food-stuffs-production by countries for 1935—38," published by the League of Nations is a useful publication. In a handy form it brings together information which previously could only be obtained by much research. The work is really original and contains complete statistics on the production of raw materials and foodstuffs by the countries. The information relates to some 200 commodities and nearly 140 countries or areas.

In order to indicate whether the various countries on balance absorb or supplement world market supplies, a column has been added in which are given net imports and exports in 1935—the latest year for which practically complete statistics for all areas are available.

The volume not only details the production of each commodity by each country, but also shows in a single table the main sources of supply.

In utilising this book of reference, the reader would be well advised to study the preface which, in addition to explaining the scope of the tables, draws attention to certain of the statistical traps into which the unwary may be liable to fall.

K. L. Govil.

Road and Rail Transport, by S. R. N. Badri Rao. Published by Annamalai University. 1941. Pp. 608 LVI. Price Rs. 5.

The volume under review is the text of a thesis submitted by the author for the M. Litt. Degree of the Annamalai University and bears witness to the high standard which the Research Degree of that University has come to acquire in the world of Indian Economics.

The book is divided into two parts, one dealing with railways and the other with roads. The first part begins with a general survey of the development of different types of transport in the country and the problems of competition and co-ordination to which it has given rise. The author next proceeds to discuss Rate-making in practice, particularly the problems of classification, of scheduled rates, and exceptional rates. He points out that, all theory notwithstanding, the most powerful factor in governing the quotation of rates is competition - competition between different routes on the same line, between different railway companies, between railways and other forms of transport and finally competition between shippers: and he points out how the necessary co-ordination is not there in spite of the existence of a Central Railway Authoriy. The most interesting chapter in this part is the next one where he deals with the study of the freight rates on certain commodities like coal, tobacco, linseed, groundnuts and rice: the conclusion drawn from the study is that the movement of railway freight traffic is from the Ports to the main inland markets and he suggests that inland railway freight rates should be enhanced and the extra receipts gained this way be utilized to subsidise low rates on out-bound traffic to the ports. A justifiable protest is also raised against the unhealthy practice of imposing percentage increases in freight rates without pausing to enquire

into the reactions of the step on the trade in individual commodities. The next two chapters deal with railway administration in general, particularly the financial side, and the view is expressed that the development of road transport in recent times has led to considerable losses in the revenue of railways. A strong plea is made for the amalgamation of the railways in the country and it is suggested that a regular Rates Tribunal should be instituted in addition to the existing Rates Advisory Committee.

Part II is the more interesting portion of the book and deals with problems of road transport in the country. The first chapter in this part (Chapter 7 in the book) gives a brief theoritical review of the economy of motor transport and is followed by a detailed study of the transportation costs from such statistics as were available to the author by his enquiries into the working of motor transport in Travancore and Hyderabad States and of the working of the United Motors Service of Coimbatore. Thus in the case of the United Motors Service of Coimbatore, which is a private amalgamation of bus companies running 185 buses in 1937 and having a route mileage of 1500, the author finds that the average mileage consumption comes to between 14 and 15 miles per gallon and the average of total working expenses including petrol, oil, tyres, tubes, spare parts and batta, come to Re. 0-2-9 per running mile. The next three chapters contain the results of the author's detailed enquiry into the working of State Controlled Motor Transport in Travancore and Hyderabad and into the working of the United Motors Transport of Coimbatore. These three chapters form the most valuable portion of the book and are the results of the author's first-hand investigations. The next chapter deals with the question of control and a detailed and approving analysis is made of the Indian Motor Vehicles Act of 1939. The next chapter contains an even more detailed analysis of the Madras Motor Vehicles Regulations of 1940. This is followed by a brief survey of legislation relating to motor transport in Great Britain, United States, Ireland and in some other countries. Finally, the author concludes by discussing the best ways of effecting a co-ordination of different transport services and pleads for a demarcation of spheres of influence. He examines the rival claims of monopolisation and control comes to the conclusion that in the case of India an entire monopolisation of the whole transport system is not possible. He suggests therefore that we should fall back upon a method of control that would stabilize and make wholesome the conditions of motor tranport and points out that the licensing system is at once the most effective and easiest to adopt for this purpose. The book has a large statistical appendix which should be of particular interest to students of transport costs.

The reviewer feels that the book could profitably have been reduced in size and the theoretical and general discussions contained therein dropped without affecting the utility of the publica-

tion; but the factual study it contains, particularly the study embodied in chapters 8, 9, 10 and 11 of the book, forms a valuable addition to the literature on Indian Eonomics and Mr. Badri Rao's book is therefore one which deserves to find an honourable place in the library of every Indian Economist.

V. K. R. V. RAO.

ARTHSHASTRA KI RUP REKHA, by Pt. D. S. Dubey. Published by Sahitya-Niketan, Allahabad. 1940. Pp. 491 plus 12. Price Rs. 6.

Economic literature in Hindi is still in its infancy. Except some stray articles on economic topics and a few books, much work has not been done in this direction. It is a matter of gratification that the U. P. Board of Education has now made the use of Hindi in Intermediate Examination optional, which is likely to give stimulus to the creation of economic literature in Hindi. There are, however, two remarkable persons who have been devoting their energies and time to the development of this branch of Hindi literature, despite all sorts of difficulties, *viz.*, Syt. Bhagwan Das Kela and Pandit Daya Shankar Dubey. These two names will, I believe, go down to history as the founders of economic literature in Hindi. A book written by a writer of the standing of Pandit Daya Shankar Dubey is, therefore, to be warmly welcomed.

The present book is a sort of catechism of Economics. It has been written in the form of dialogues between an intelligent boy and an elderly man, which make the understanding of the principles of Economics easy, realistic and natural. The book is not a dessertation on advanced economic theorisation and philosophisation, for which we have still to wait for some years, but is a new method of approach to the study of elementary principles of Economics. Still the author has a point of view of his own which he explains in the preface as follows: "In this book importance has been given to the Indian point of view, and the relation between wealth and morality has been explained from this standpoint. Almost everywhere in the world of today materialism and selfishness rule or are ruling. The entire world is restless. . . . But it is my firm belief that the world can have happiness and peace only if the moral consideration is allowed to have prominence in all the activities relating to wealth." The dialogues are very lively though it is felt that a parsimony in their size and their sharper pointedness would have made the book still more valuable than what it is at present.

The language has a fine finish and can be easily understood; while the coinage of Hindi equivalents of English terms shows a

good grasp of the principles of terminology, though on matters such as these unanimity of opinion is difficult to achieve. It is hoped that the book will go a long way in making the subject of Economics popular among the Hindi-knowing public and will be a guide to other writers in the line.

A. N. AGARWALA.

DOCK LABOURERS IN BOMBAY, by Rasiklal P. Cholia. Published by Messrs Longmans, Green & Co., Bombay. 1941. Pp. 165. Price Rs. 4-8-0.

This small but neatly printed book is a dispassionate and objective study of the economic conditions of Dock Labourers in Bombay. It embodies the results of an inductive enquiry, which was conducted about 7 or 8 years back and which took more than 6 months to be completed. For this careful study the author made careful preparations. He prepared special enquiry forms and got them filled in by about 10% of the workers of each type. For getting reliable information he had to take into confidence the Bombay Port Trust authorities and Stevedore firms on the one hand and Labour Unions, Serang and Muccadams on the other. He overcame the timidity and suspicious nature of the labourers by mixing with them and talking to them freely in their 'chawls', or Unions, or over cups of tea in restaurants, or on board the steamers while at work.

The whole work has been divided into ten chapters. The first two chapters which deal with the history and the development of the Bombay Port and its activities provide the background and other environment in which the Dock Labourers have to work. In the next seven chapters each of the seven groups in which the labourers are divided, has been treated separately. The author has set out interesting facts and figures regarding the methods of employment and recruitment, nature of work, labour migration and its causes, age composition, community or caste, birth place, original occupation and attachment to agriculture, working hours, dependents and the size of the family, monthly expenditure on food, clothing and luxuries, monthly surplus and deficits, means of meeting the deficits, indebtedness and its causes, rate of interest, rent and housing facilities, home remittances, Provident Fund, payment of gratuities, and Life Insurance facilities. The last chapter is more or less a summary of these seven chapters.

The fact that the material relates to 1933-34 does not detract from the value of the book much, as the condition of the Bombay Dock Workers has not changed materially during the last eight years. The main problems of Dock Labour are still unsolved. Their most important problem is that of minimising the hardship due to unemployment and under-employment. As the demand for

labour is intermittent and casual, and depends upon the arrival and departure of vessels and the size and nature of their cargoes, all workers are unable to secure continuous employment throughout the year. Only a system of decasualisation can remedy the defect by securing to each worker, who regularly offers himself for work, as large a measure of regular employment as the nature of the calling will allow. Mr. Cholia has rightly suggested the registration of workers as the first step towards decasualisation of employment. A register should be compiled of all genuine Dock workers. The admission of new men to the register, as Mr. Cholia suggests, should be restricted to fill in vacancies. Each man on this register should be given work when his own turn comes. Such a system will not only reduce the reserve of labour to the number really needed by the Port and thus secure a large measure of regular employment to each worker, but will also check bribery and corruption prevalent under the present system of employing labour through Toliwalas or Headmen and other intermediaries who have the power to select men for employment.

Another vital problem concerning the Dock workers is that of their safety and compensation. Unfortunately it has not received as much attention of the author as it deserves. He could have given more recent figures of accidents than those relating to 1933-34, and worked out the incidence of accidents per thousand workers employed. Again, nothing has been said regarding the safety regulations, system of inspection and the reporting of accidents in Docks. Even as regards compensation legislation, Mr. Cholia has contented himself only with narrating the changes which it has undergone from time to time. He could have made the book more interesting and useful if he had cared to discuss the possibility of making such further improvements in the legislation, as the raising of workmen compensations to the level recommended by the Geneva Conference of 1925, compensation for fatal injury even though due to personal negligence, compensation for accidents not only arising out of, but also in connection with employment, provision of artificial limbs, rehabilitation of partially disabled workers on returns from hospitals, and compensation for injuries resulting in disablement for more than 3 days. Lastly, the discussion of social welfare problems such as holidays with pay, social insurance, adequate medical aid and educational facilities, both for children and adults, ought to have found a more suitable place in the treatise.

In spite of all these weak points it will not be too much to say that this factual study of Dock Workers is a valuable addition to the growing literature on casual labour in India. It undoubtedly fills an important gap in the study of Indian Industrial Labour, especially because it deals with the condition of one of the most neglected type of workers.

B. R. SETH.

THE WORKING OF THE PROTECTIVE TARIFF IN INDIA, by L. C. Jain. Published by Registrar, University of Delhi. 1941. Pp. 117.

In this small volume Dr. Jain has attempted a general survey of the problem of protection in India and its working from various angles. After an introductory chapter on the "Evolution of Protective Tariff in India," the author undertakes a study of the application of the tariff to the different industries. The study is divided into three parts—(*a*) Basic Industry (Lecture I), (*b*) Large Industries (Lectures III—V), and (*c*) Cottage Industries (Lecture VI). The scope of the volume is indicated by the author as follows "It must, therefore, be the purpose of this study to investigate into the economic and sociological effects of the working of protective duties" (page 8). Dr. Jain's analysis of the problems of the different industries is brief but thorough, for he gives a careful review of the history of the various measures of protection adopted for the different industries and indicates their effects on production and imports, supporting his contentions by a mass of statistics. Finally, the author asks the vital question—Has protection been successful? This has always been the battleground of tariff controversies and it is no easy task to deal with the various aspects of the problem from which it must be approached before an answer can be given. It is obviously not possible to discuss all the aspects within the scope of a small volume and Dr. Jain, therefore, rightly deals with only the most outstanding tests. As he puts it "The truest test of the success of protective tariffs, however, is how soon and how much an industry can dispense with the protection." (Page 49.) The author has attempted to indicate the lines on which to apply this test for the different industries and points out the cautions that must be adopted in such a study. Finally, Lectures VII—IX are devoted to a study of the problem of protection in relation to consumers, Labour, and the State. The concluding lecture—the tenth one—deals with the question of protection and the economic development in India.

The book is, on the whole, an excellent introduction to the study of Indian Protectionism, and general readers as well as students of economics will find in it thoughtful lines of study indicated which, when pursued, will provide the background of more detailed surveys for individual industries. The book is not intended to be taken as providing a source for quoting dogmatic assertions either in favour or against protection—though the author concludes " . . . it can certainly be said that because of it the people of the country on the whole are richer, they are happier and more efficient, and that after all is the greatest testimony to the success of protective policy" (page 114)—but as a means of 'stimulating further thought and study' on one of the most controversial questions of Indian Economics.

S. K. BOSE.

THE INDIAN TEXTILE JOURNAL. 1890—1940. Jubilee Souvenir. Published by Editor, Indian Textile Journal, Bombay. 1941. Pp. 348. Price Rs. 3.

We congratulate the Journal on the occasion of its Jubilee for its very successful career of fifty years in the cause of the Indian Textile and Engineering industries. The Souvenir is not only a very valuable but also an artistic publication. Nearly every aspect of the textile industry has been discussed in a masterly fashion by leading practical industrial magnets. Tributes from the galaxy of knights and Doctors like Sir H. P. Mody, Sir Ness Wadia, Sir Sorabji Saklatvala, Sir Purushotamdas Thakurdas, Sheth Kasturbhai Lalbhai, Sir Shri Ram, Sir Homi Mehta, Sir J. P. Srivastava and eminent economists like Dr. Lokanathan, Dr. Burns, Dr. Ganpati Rao shed fresh lustre on the Journal. These writers can speak with authority on the many-sided problems of the industry, as the articles contributed by them are based on life-long experience. It is really a remarkable achievement to get contributions for the Journal from so many authoritative quarters. It is not possible to comment upon the numerous articles, but we only join hands with Sir Shri Ram in the hope that the Indian Textile Journal whose continued prosperity is associated with the fortunes of the industry, will carry on a campaign of "Rationalized Industry for an irrational one." We wish the Journal a more brilliant and useful career.

K. L. GOVIL.

REPORT ON THE MARKETING AND TRANSPORT OF JUTE IN INDIA (First Part). Published by Indian Jute Committee, Calcutta. 1940. Pp. 323 plus XVI. Price Rs. 1-8-0.

Jute is almost the monopoly of Bengal and in the last five or six years there have been two enquiries by the Bengal Government, known as the Bengal Jute Enquiry Committees of 1934 and 1939. The present Report is the first part of the Enquiry into the Marketing and Transport of Jute in India by the Indian Central Jute Committee. It relates to raw jute only. The other part which is expected to be out soon will deal with the utilization of jute in India, and the marketing of manufactured products. The Report is an original and authentic work on the subject. Starting with a concise but complete description of the present system of crop-forecasting, it proceeds to examine at length the various stages through which the fibre passes from the grower to the manufacturer, or shipper, as well the details of the marketing organisation and the mehtods of buying and selling that are followed at all these centres.

Many of the problems discussed in the Report are common to most of our agricultural produce in this country. "The Enquiry

has established that in the marketing of 1937-38 more than two-thirds of the crop was disposed by producers witnin the first three to four months. The early sale of such a large proportion of jute by growers was due mainly to the lack of holding power, and was aggravated by the difficulties of transport and the dearth of storage facilities in villages." Now this description holds good not noly of jute but of wheat, cotton and oil-seeds, etc., as well. Many of the recommendations made by the Central Banking Enquiry Committee and the Provincial Banking Enquiry Committees are repeated here as well. We do not object to their repetition, but it shows they were only pious hopes and have not been so far acted upon.

The other defects, like illegal deductions and charges by an unnecessarily lengthy chain of middlemen, unhealthy speculation in trade, want of proper classification and grading and the malpractices of watering and adulteration of the produce have once again been forcefully brought to the notice of all concerned and the Committee have made proper recommendations to remove these defects.

We believe the Indian Central Jute Committee will follow in the footsteps of its sister organization, the Indian Central Cotton Committee and hope that under its auspices useful research work, like the present one, shall be conducted.

K. L. Govil.

Principles of Economics, by Brij Narain, Professor of Economics, Sanatan Dharam College, Lahore. S. Chand & Co., Delhi. 1941. Pp. 712. Price Rs. 7-4-0.

Professor Brij Narain is an experienced teacher of Economics. He has taught Economics for a number of years. He has taught New Economics—the Economics of the Neo-classical School—in the last two years. He has got disgusted with New Economics. He has found it " too doctrinaire, unrealistic and obscure." The present treatise owes its appearance to that disgust. He has written it primarily to save his students from New Economics, if possible. He wants to give them Economics that is realistic and clear.

This object Professor Brij Narain has achieved to a great extent. The treatise maintains touch with reality as much as possible. It takes illustrations from India, U. S. S. R. and other countries.

The author rightly believes that pure Economics is not of much use. Says he "The theory of Economics is barren if it has no light to shed on Economic practice." He wants Economics to concern itself not only with 'what is' but also with 'what ought to be.' He, therefore, does not hesitate to pass moral judgments

nor consider suggestions for improvement as outside the study. His point of view, he tells us, is 'frankly utilitarian.'

The work is a comprehensive one. It deals with all the subjects that fall under the scope of Economics—namely, consumption, production, exchange, mechanism of exchange, distribution and public finance. These constitute the main body of the work. This is preceded by an introduction which explains the nature of Economic science; its central problem: valuation; the forms of Economy and the author's point of view; and is followed by two general appendices, one on the scope and method of Economics and the other on the development of Economic thought.

The work also makes clear new terms and concepts which are not found in older text-books, *viz.*, 'indivisibility,' 'liquidity preference,' 'transfer earnings,' 'opportunity costs,' 'marginal revenue,' 'forced saving,' 'monopsony,' etc., etc.

One might not appreciate the use in a treatise of the type of the brief life sketch of Gossen, the appendix in Urdu to Chapter VII, the quotations from Maulana Rumi and others, etc., but one cannot but say that the treatise will be of immense help to the Indian students for whom it is written. The general reader desirous of getting a knowledge of Economic Principles will also be benefited by its perusal.

G. D. K.

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THE ECONOMICS OF GOKHALE

BY

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I

Although Gokhale lived at a time when the power of the Indian publicist to shape the economic and financial policies of the Government of India was extremely limited, he nearly succeeded in leaving the imprint of his mind on the policies of the Government as revealed by the budget statements of successive finance ministers during his time. In the sphere of public finance the contribution of Gokhale was of no mean order. Most of the principles which he enunciated were not only true in his days but have stood the test of time and are anticipations of modern ideas on the subject. The principle of Gladstonian finance was accepted universally as the soundest canon of public expenditure, and it is not surprising that Gokhale occasionally shows himself to be an adherent of that view. Speaking in 1902 he says: "The true guiding principle of Indian finance ought to be a severe economy, a rigorous retrenchment of expenditure in all branches of administration consistent with efficiency, keeping the level of taxation as low as possible so as to leave the springs of national industry free play and room for

unhampered development." These words, reminiscent of Gladstone and Parnell, represent conservative finance in its extreme form, but Gokhale soon revealed himself as an advocate of a forward programme of public expenditure and travelled far from this narrow and limited scope of public expenditure. In his speech on the budget statement for 1908 Gokhale gave expression to the principle that should govern public expenditure. "A large portion of our revenues should be devoted to objects on which the moral and material well-being of the masses of our people ultimately depends . . . . Expenditure on primary functions is necessary but it must be kept down. On the other hand, no state can expend *too much* on an object like education." In another place he stated his attitude to expenditure thus: "Increase in public expenditure will not only not be grudged but will be regarded with feelings of sincere satisfaction and gratitude all over the country." He was thus an ardent advocate of expenditure in all developmental functions, on education—technical and general—on industry, agriculture and sanitation and public health. According to him, far more money was being spent on the purely defence and primary functions whereas the economic functions of Government had been neglected. He urged that the relative claims of the two on the resources of the country should be reversed. He was like all his contemporaries strongly against the continuous increases in the military burdens of the country and urged not merely a reduction but a sharing of the cost by the British Government. The defence of the strategic frontiers of India being an Imperial responsibility, India ought to be relieved of part of the burden. "A top-heavy administration much too costly for India and a crushing weight of military burden" were the features of the financial position of India which he wanted to modify.

II

Gokhale's views on taxation naturally reflected and followed from his canons of public expenditure. Here again it is possible to trace an evolution of thought in Gokhale. In his speech on the budget statement in 1902,

he sought to anticipate the criticism of an apparent contradiction between his advocacy of both a reduction in taxation and an increase in expenditure by pointing out that both would be possible if military expenditure were cut down. He was for quite a considerable time against any increase in the level of taxation, which according to him was already high enough. The weight of taxation was, according to him, fixed and maintained at an unjustifiably high level and higher than the circumstances of the country justified. But if it was for spending on the nation-building activities of government, he would not mind increases in taxation. Taxation imposed and earmarked for such purposes would meet with his approval and Gokhale raised no objection to increases in taxation on tobacco and drink or to other taxes if the proceeds would go for financing outlay on sanitation, public health and education.

In the sphere of taxation Gokhale's main concern was to lessen the burden on the poor and to make the tax system more equitable as between different classes. It was too regressive and the burden fell too heavily upon the poor. Nowhere was the burden of taxes on land so heavy as in this country, said Gokhale. The poor also contributed the whole of the excise tax, and as for salt tax, who does not know the valiant efforts put up successfully by Gokhale to reduce its burden? In pleading for a reduction in salt duty he enunciated a sound principle of taxation well worth noting. "The soundest and best policy would be to raise an expanding revenue on an expanding consumption under a diminishing scale of duties." The implication of this principle is undoubtedly far-reaching. It implies that the ultimate basis of all taxation was not the multiplication of levies or their heights but the general level of economic prosperity. Improve the wealth and prosperity of the people and the problem of taxation would solve itself—that was Gokhale's principle.

Besides urging a reduction in the scale of land revenue Gokhale pleaded for permanent settlement of lands in all regions where it had not been introduced. But he was concerned with the reformation of the system of taxing lands in the ryotwari tracts rather than the introduction of

Permanent Settlement. On this question of Permanent Settlement, Gokhale's lukewarmness is justified by later developments in public opinion. Few are now found to endorse the powerful plea put forward by Dutt and echoed by nearly all contemporary writers to effect Permanent Settlement all over India. The Floud Commission in Bengal has driven the nails on its coffin, and the zamindari system is regarded as an anachronism under modern conditions where the choice is said to be between peasant farming and collective farming.

Gokhale supported the removal of cotton excise duties on the ground that the consumers were hit by the duties. Indeed he went so far as to say that "if it was the case that these excise duties fell on the producers and not on the consumers, I would not stand up here to support their abolition to-day." Gokhale here failed to distinguish between the mere incidence of a tax and its effects. Although the incidence of the duty might be on the consumer, the producer is undoubtedly affected adversely by a duty which would either limit his profit or the expansion of his firm.

Gokhale's modernity in problems of finance is revealed in his attitude to the financial relations between provincial governments and the centre. He saw clearly even as early as 1910 that the root of the trouble was that the Government of India had at its disposal too large a share of the growing revenues while its expenditure was practically confined to the Army and a few services. The provinces had little resources but a large field for useful expenditure. He therefore pleaded for a reduction in the resources available to the centre and his proposal was that the Government of India should be content with getting about 2/3 of its revenues from its own resources and derive the rest from contributions from the provinces which should be left with ampler resources. He was for ending the practice by which provinces should be looking forward to the Government of India for doles for its growing requirements. While his particular scheme may not be acceptable to us, there is no doubt that he anticipated long ago the problem of Federal Finance which remains to this day somewhat intractable.

Some of the proposals for new taxation suggested by Gokhale then have become important sources of revenue to-day. The export duty on jute which is one of the mainstays of Bengal finance was recommended by Gokhale as early as 1910, and he was also for an export duty on hides and skins which too came to be included in the fiscal system later.

III

It was perhaps in the sphere of budgeting that the stamp of modernity was most clearly marked by Gokhale. He inveighed strongly against the pernicious system of continuously budgeting for large surpluses and utilising them for productive expenditure on Railways. It was a double wrong according to Gokhale. The maintenance of a system of high taxation for surplus unsound in principle and inequitable in practice had not an iota of justification when the conditions which might have justified the practice had long ago disappeared with the closing of the mints to the free coinage of the rupee and the maintenance of stable exchanges. But even if surpluses had accrued as a result of the Finance Member's wrong budgeting they should not be used for Railway outlay which should be wholly met by loans. The principle of utilising revenue surpluses for capital expenditure and of thus wiping out unproductive debt (in addition to the normal provision for reducing debt) was a peculiar feature of Indian finance and to this day is being followed in many provinces. In Madras the hydro-electric schemes have been financed partly on that basis. Gokhale set his face sternly against that practice for which there is really nothing to be said. Some would defend the system on grounds of safety and prudence, but in reality the diversion of such sums from more urgent current needs in education, sanitation, public health, agricultural improvement and industry to capital expenditure is conducive neither to the promotion of public interest nor to the raising of the well-being of the masses of the population. Public investment would be at the mercy of the uncertain revenue surpluses; while funds so urgently required elsewhere for the raising of the material welfare

of the people are used less advantageously. Rightly therefore did Gokhale condemn this pernicious system and pleaded for the utilisation of these surpluses on schemes of education and sanitation. In his own words: "When questions concerning the deepest welfare of the community and requiring to be taken in hand without any delay are put aside on the ground of want of funds it is most unfair that these surpluses should be devoted to the construction of Railways." He was, of course, for a balanced budget. The idea that budgets could be unbalanced was in his days, and indeed quite recently, unthinkable. But he was not against a small deficit or a moderate surplus. A large surplus accruing year after year was an invitation to the Departments to waste and to maintenance of high taxation.

In keeping with his general attitude towards public expenditure as a means of improving the economic well-being and productive capacity of the people, Gokhale propounded his attitude to the problems of public debt and of liquidating them. Expenditure was to him more important than avoidance of debt. Indeed he was strongly for incurring debt to meet all items of extraordinary expenditure. It was most urgent to provide for it from out of current revenues. Gokhale held very strong views on the question of sinking funds to redeem debt. A reasonable sinking fund was all that India had; but there was no need to add to it every year from revenue surpluses or liquidate the debt rapidly from out of the ordinary revenues. Moving the annual allotment of £500,000 under Famine Relief towards the reduction of Debt, Gokhale enunciated his principle firmly thus: "I suggest that this grant should no more be devoted to the reduction of debt and I do not think its reduction is of paramount importance. On the other hand if the same sum was made available for agricultural education, for the organisation of rural credit and other measures connected with the material improvement of the peasantry that would benefit the peasantry far more than the present practice of Government. I am quite sure the Finance Member will tell us that I am attacking the principle of the Sinking Fund. No doubt I am. I go further and say that in the present state you do not want a

Sinking Fund." How Keynesian these words ring will be apparent to every student of economics to-day!

The system of long-term budgeting or planned scheme of expenditure was foreshadowed by Gokhale in some of his speeches. He pleaded for the creation of Special Provincial Reserves and for the Local Funds Reserve to both of which he advocated an annual allocation of funds from central revenues and out of which these bodies might spend on programme lasting for a certain period of time. A large regular grant for that purpose was advocated and these grants would go to the fund.

It is not necessary to go into his various other interesting proposals of budget reform. One valuable suggestion might however be noted. He advocated without success a scheme by which the accounts of Railways, Irrigation, Posts and Telegraphs and all other commercial departments of Government should clearly show the net return, whether it be a plus or minus. It took more than two decades for the Government to follow this valuable suggestion of Gokhale.

IV

Gokhale's views on the burning controversy of free trade versus protection were marked by a refreshing sense of realism. "By conviction I am not an upholder of free trade in all countries and at all times." He was like almost every other Indian then and perhaps even now a protectionist. But what distinguished him from the rest of his countrymen was his conviction that in the circumstances of the economic and political evolution of the country, free trade was the safest policy. He was afraid that if protection were introduced then it would be the wrong kind of protection under which powerful influences and combinations and interests prejudicial to the interests of the general community would come into existence and receive assistance. Those interests would have ready access to the Secretary of State and use this huge engine of protection in their own selfish interests and against those of the people of India. The profits of protection would go to enrich the Europeans only. Hence he would not be a party to protection. How

right he was can be realised from the fact that even to-day the fears entertained by Gokhale have not altogether disappeared, and the large number of firms with the title appended "India Ltd." is a proof of the existence of this evil even to-day.

Gokhale's idea of protection was not confined to mere tariffs. Speaking of the needs of the sugar industry, he pointed out that a mere increase in tariffs would not avail but what was required was assistance of a more direct kind. Government should make available the services of expert chemists, render facilities in the matter of irrigation, land and research.

V

Unlike other Indian politicians who pressed for the adoption of gold currency in India Gokhale was content with the system of the gold exchange standard. All that he was concerned with was to ensure that the gold standard reserve was not piled up to an unreasonably high level beyond what was necessary for the maintenance of stable exchange. It was not his fault that the figure which he thought was sufficient was proved to be wholly inadequate. The Government of India went wide of the mark, and also failed to use the funds intended for the purpose. Instead they clung to the reserve as if its purpose was never to utilise it.

That he was not against the exchange standard can be seen from the fact that in the course of his arguments against unduly inflating the gold reserve, he observed *inter alia* that "a gold currency has never been authoritatively proposed as a definite object to be attained; that it is wrong to pile up a high gold reserve in pursuit of an object never proposed or even regarded as attainable within a measurable distance of time and that it is looking too far ahead into the future to anticipate the introduction of a gold currency into India." But he was by no means happy over the working of the exchange standard. He shared with several others the view that the increase in the level of prices in India since 1900 was directly due to the working of the new currency system which while it brought about increased supplies of currency

did nothing to take away the redundant or excess currency. On the other hand it was alleged that on account of the token character of the rupee the old practice of melting had been given up, and fresh money once created continued to swell the currency. An increase in the quantity of money was bound to result according to the quantity theory of money in high prices. Indeed Gokhale stated that the quantity theory of money was of especial application to India.

It is easy to see now that the above was not an adequate explanation of the high prices or of the shortcomings of the currency system. The ultimate factor explaining price-levels in India (as well as of balance of trade) was the world's demand for our staple commodities of export. Internal causes are relatively unimportant in determining them. The quantity of currency in India very often has been the result rather than the cause of high prices, and during the period to which Gokhale's criticism relates the foreign demand for India's staples was the governing factor tending to high prices. Under any currency system that was bound to happen. In India on account of the excessive liquidity preference of the agriculturists a larger volume of currency would be required to maintain a certain level of prices. But it is not the quantity of money that determined the high prices; the latter is the cause and the quantity of money the result. The modern view of the nature of the quantity theory takes into account the influence of money on the rate of interest and through the rate of interest on investment and expenditure. It is not the quantity of money so much as the level of expenditure that determines the price-level.

Again Gokhale like many others then did not have a clear idea of the exact nature of the defects of the gold exchange standard. Between England and India the supposed compensatory mechanism of the exchange standard did not function properly. Losses of gold from one country to another when balances became adverse were supposed to bring about a change in the relative price-levels. But in the way in which it functioned it had no such effect in England which had all India's gold stocks with her. She was never compelled to take action vis-à-vis India when she

lost or gained gold. If when India had large favourable balances and took them in the form of gold resulting in Britain contracting her currency and credit, more imports would have flowed from England, and the price-level in India would not have continued to go up. That Gokhale did not furnish full or adequate explanations for the high prices in India is not surprising considering the fact that only to-day the real explanation of the value of money is being understood.

RANADE AND ECONOMIC PLANNING

BY

D. G. KARVE.

It is forty years since the death of Ranade, and economic planning has been the subject of discussion among economists and reformers only during the last twenty years. It will, therefore, be inappropriate to claim that Ranade had developed set views on the details of the problem of planning. But like Adam Smith Ranade's thought was so deeply based on a historical and sociological study that for all well-designed economic policies he has a helpful word to give us.

Police vs. Cultural State.

That the present interest in planning is in an important measure a reaction against the so-called self-adjusting, but in reality a planless, economy of the nineteenth century is generally conceded. Ranade raised his voice against the pernicious influence that the Ricardian and Benthamite doctrines were producing on the economic and social policies of the Government of India. Not policing but cultural development was for him the proper or ultimate objective of state activity. The conception of a state maintaining strict physical non-intervention while allowing unchecked waste or exploitation offended against Ranade's deep-rooted respect for an orderly, just and beneficent government of things. As representing all the interests in society it was not only permissible but obligatory upon the state to guide all aspects of social life into channels recognised to be in conformity with the accepted goal of life.

State credit and national solvency.

Ranade's conception of the state being that of an integrated union among individuals, and not merely a

mechanical collection, he did not approve of the short-sighted engrossment of the Government of India with state or government as opposed to national credit. All the financial policy of the Indian Government then consisted, as it does in a large measure to the present day, in cutting expenditure on all non-essential services, and meeting all ordinary and a good deal of extra-ordinary expenditure by taxation. On account of the non-industrialised and small-scale nature of Indian economy, and the thoroughly undemocratic character of government, taxation tended to be regressive. Agriculture and industry both suffered from the state policy of inaction. Agriculture suffered doubly, inasmuch as it was also the most heavily taxed industry. The solvency of the nation, depending on the surplus of the industry of the people, steadily deteriorated, while the state claimed to have a high credit in the foreign money market. This was only one of the many glaring inconsistencies of the Indian economic life, which Ranade traced to the wrong theory of an individualistic and non-interfereing state professed by the then Government of India.

Industrialisation, solvent of Indian poverty.

For Ranade the problem of problems in Indian Economics was the problem of Indian poverty. He agreed that the extent of this poverty had been adversely affected by a wrong policy on the part of the state. Ranade, however, had a deeper perception of the nature of India's economic backwardness. He dealt with the Indian problem as one among a large class of Eastern and Elder economies. According to him, the bane of all these economies was that they were too exclusively agricultural. Only a balanced development among agricultural, industrial and commercial pursuits could render a society immune from the vagaries of a tropical climate. Ranade was, however, sufficiently shrewd to see that balance without power would not help to relieve the innate precariousness of a backward economy. He, therefore, suggested that all industry, including agriculture, ought to be transformed to conform to the methods rendered possible by the progress of science. By thrift and

wise borrowing capital must be raised. By a steady building-up of a suitable industrial structure the habits of the people must be gradually improved. The efficiency of labour and organisation are matters which experience of the new order can alone help to promote. The utilisation of scientific research for industrial development is indeed the final culmination of the industrial regeneration of a country. Educational, industrial and administrative co-ordination needed for attaining this end has to be carefully secured at all stages of the process of industrial transformation. Ranade emphasised the responsibility of both the state and the public in this matter.

Staple industries. Urbanisation.

As regards the character of industrialisation Ranade had no half-hearted predilections. He knew that for the continued success of industry its products must be such as command a wide and steady market. What may be called luxury industries, or court industries, always tend to lead an unstable existence, though they may have bright patches of good fortune. When the structure of industry becomes capitalistic, large quantities of resources have to be invested in anticipation of future returns. This more easily attained in the production of staple commodities of wide consumption than in the supply of highly elastic demands. By its very nature modern industry tends to be urbanised. It either starts in an urban area where special advantages, either with regard to finance, labour or transport obtain, or the places where they start themselves develop into big cities. Only in special cases of natural or inherited advantages, *e.g.*, Switzerland and Japan, is a certain dispersion of industrial production possible. Instead of working for an unnatural ruralisation of industry it is better to regulate the inevitable urbanisation so as to produce highest advantage at lowest social cost.

Basic importance of agriculture.

Judging from the resources of the country in relation to its population the extent of industrialisation to which

India can aspire must always be a very modest one, by comparison with such highly industrialised countries as England. But even this extent of industrialisation would make all the difference between a stagnant and a progressive, between a precarious and a surplus, economy. Industrialisation is thus an urgent remedy for India's poverty. But the process of industrialisation must not blind us to the basic position of Indian agriculture. Socially, politically and industrially India is destined to remain a predominantly agricultural country. It is in wider national interests, including those of the agriculturists themselves, that the development of scientific and organised business is to be desired. But the agriculturist must not be isolated from this movement, nor must his basic position in Indian economy be ignored. The progress of Indian economy will be measured by what it means to the average agriculturist. Ranade was a great friend and admirer of the stolid virtue and promising potentiality of our agriculturists. In working for industrial progress he was certain that he was acting in the best interest of the farmers.

High, low and collective farming.

In his scheme of social and economic organisation high and low farming were to exist side by side. The advantages of having an independent peasantry were too obvious for him. He was not blinded by the proletarian complex of an industrial age. He knew that the sure foundations of society, whether economic or political, must be laid on a body of free and well-to-do farmers. He knew, however, that for progress leisure was necessary. That leisure may conceivably be the outcome of an unjust social system or that it may lead to decay rather than to progress is no condemnation of a justly secured and wisely employed leisure. It was for this latter that Ranade desired to plan. The accumulation of capital and the enterprise for new methods of production were to be supplied by the bigger proprietors who were to work not in a chaotic and predatory society, but in a well-planned and regulated organisation. As in the Dutch East Indies, the Government of India was also directly to encourage better and large-scale farming.

Migrations. Emigration.

Most of the peculiarities of the Ranade plan of economic regeneration of India owe their origin to the author's concern for the average farmer and worker. Ranade had a very true perception of the bearing of our population on economic progress. He suggested well-planned and state-directed schemes of internal migration. No private individual could suggest detailed schemes in this respect. The matter is well worth the labours of a national commission. That a redistribution of population so as to spread it more suitably to the resources of the various regions of the country is an integral and in fact a preliminary plank in national planning is a truth that must not be ignored. Alongside of internal migration, Ranade also laid great store by an emigration policy. By its favourable geographical location in the centre of the Eastern hemisphere India can claim juster approach to many of the lands that are subject to European or Japanese influence. East and South Africa, Mid-Eastern countries, and the Southern and Far Eastern islands were legitimate fields of Indian expansion. In many of these parts Indian influence had spread in the hey-day of Hindu civilisation, and even in later times Indian trade and colonisation have reached them. But instead of the tolerated rôle of the supplier of unskilled labour· Ranade desired that we should play the rôle of systematic colonists, as our forefathers had done before. This is a stage of Indian economic progress which must wait on the fruition of our efforts for political unity and power. But it must never be lost sight of that our frontiers are not within India. The whole world, at any rate the whole of the Eastern world, must be the stage on which our part is to be played. A well-directed, subsidised and regulated emigration,is the first and the immediate step that must be taken so as to realise the final goal of Indian renaissance.

State pioneering in industry.

A planned population policy leads up to a more or less detailed plan of agricultural and industrial progress.

It is well known that Ranade was a strong supporter of industrial protection. He was not, however, taken up entirely with an advocacy of tariffs. He blamed the Indian government for not having taken protective measures to stop the decay of Indian industries. It is certain that tariffs would have played an important part in his scheme of state-directed industrialisation. He felt, however, that the state has a much more positive rôle to play. Pioneering in the industrial sphere cannot be left to the operation of the motive of private profit, except perhaps in the small field of non-essential supplies. Wherever the technical and economic uncertainties are so great as to deter normal private effort from entering upon a desired field of national economic progress the state must directly assume responsibility. In the initial stages capital, enterprise and direction may all be supplied by the state. When the conduct of the industry is freed from extraordinary risk it may be left to the normal working of the business community, with such general provisions for regulation in the national interest as may apply to all private industry.

Transport.

Apart from the detailed methods by which individual industries may have to be helped, either temporarily or over a long period, the general conditions of industrial progress must be preserved and promoted by the state. A good system of communications, operated in the interests of national economy, is an instance in point. The development of one method of transport to the neglect of another, or the extension of communications beyond ascertained needs are both to be deprecated. Discrimination practised against the interests of national industry would, of course, be impossible in a planned transport policy. Development of transport may even directly help in industrialisation, as for instance by the establishment of the engineering and metal industries alongside of new and subsidised methods of communications. Had such an attempt been made with regard to supplying Railway stock and material in India industrial progress would have been much greater and much more substantial than what it is at present. Such a policy

of inter-departmental co-operation in furtherance of a plan of national economic development was beyond the pale of serious discussion in the days of Ranade, though he himself continued to agitate for it.

Education.

The educational system is another general service that has much to contribute to the success of a plan of economic progress. An exotic and too literary education was not calculated to instil in the minds of its votaries any of the qualities of self-confidence, resourcefulness and enterprise without which industrial progress is impossible. The school, as a nursery of all civic virtues, plays an important part in the developmental activity that Ranade prescribes for the State.

Industries based on agriculture.

Industries that have to be habilitated for other than economic considerations are in a class by themselves. But in so far as genuine development of the nation's economic effort is concerned, Ranade advised that we should follow the line indicated by the staple products of Indian agriculture. Of his suggestions the textile, iron and sugar industries have already made good their position. It is clear that these industries have secured their progress without much avoidable loss to the legitimate interests of the consumer, the primary producer or the state. Other industries in the same class which have not as yet fully found their feet are, oils, dyes, leather and tobacco. The technical and organisational problems raised by these industries are extremely complicated. But surely they are not of such a character as not to yield to a concerted and planned attack on them. If these industries make anything like the remarkable progress made by some of the other protected industries, the standard of life of a large section of the people will be considerably raised.

Technical advice. By-products. State insurance.

Research and scientific advice are necessary services In state-directed industries these will have to come from

governmental organisations. How far the state can help particular industries under private direction by way of technical advice is doubtful. Excluding the competitive aspect of the matter, however, it must be admitted that as a general service both state research and state advice can play an important part in the industrial development of backward nations, as indicated by Ranade. In the matter of utilising by-products the policy of the Indian government has been specially unhelpful, both on the technical and administrative sides. Ranade severely criticised such an attitude and pleaded for enthusiastic cooperation between the state and industry. In the light of many recent proposals for a public underwriting of industrial losses caused by factors beyond the control of individual businessmen, Ranade's suggestion that in selected industries Government should insure the owners against stipulated risks appears not only penetrating but almost prescient.

Banks.

Ranade, unlike many other reformers, aimed at planning from the bottom to the top, and not the other way about. Hence his insistence that a reform of agriculture was an essential preliminary to the success of Indian industrialisation. In the sphere of financial organisation Ranade exhibited the same unerring instinct of a master mind. He urged the transformation of the moneylending class into banking organisations, not immune from the usual responsibilities of financial business but helped by the state in certain respects. If instead of remaining content with organising the resourceless farmers into subsidised cooperative societies, encouragement had been offered to the hereditary class of moneylenders and bankers to organise themselves in a manner suitable to the new dispensation the history of rural as well as of industrial finance would have been much more heartening than it has actually turned out to be. The farmer's and the producer's need is to borrow, and it is the need of those who save to lay out their capital. Efficient organisation must supply the bridge or the channel between these two classes. It is fantastic to hope that the borrowers can supply their own needs. Next to agricultural

reform, banking reform is a necessary accompaniment of industrial progress. This truth has not been so well realised as Ranade desired it to be. The consequences of this lapse have been almost disastrous.

Regulated economy.

Ranade desired to develop to the fullest possible extent the initiative and capacity of individual citizens. Extreme forms of socialisation would thus have been repugnant to his objective. It must, however, be emphasised that he stood for a regulated, no less than for a planned, economy. He desired that the largest possible advantage of a mixed economy should be secured for our land. In fact he felt that our genius for adaptation was best suited for such a mixture. On the one hand he urged a further extension of the rights of private property in land so as to create an assured position for the tenant, and to establish as many people on the land as possible. On the other hand, he valued the productive purpose of land so highly that he disapproved of the right of too easy transfer of land created by the early English laws in India. Property, like other attributes of individual liberty, had for Ranade only a social justification. It was even in the best of circumstances to be administered as a public trust. That a reorientation of our views on social institutions would be necessitated by the problems of modern industry was well appreciated by Ranade. A large measure of redistribution of wealth is not only welcomed but indicated by him as a necessary feature of planned economic policy.

Leadership.

A convinced democrat as he was, Ranade yet knew the unifying and directing value of the leadership of great personalities. In the comparatively undeveloped state of Indian nationalism it was not possible for him to know definitely whether the all important lead in such a stupendous task of national reconstruction would be forthcoming from the ranks of hereditary princes or from those of the constitutional ministers of the state. He, therefore, ex-

pressed himself as looking for a great statesman, either a Colbert or a Peter the Great. Leadership is such an essential part of the mechanism of revival and reconstruction that in the absence of any provision for the same almost all other advantages will surely come to naught.

The direction, the mechanism, the policy and the objective of a planned economy for India have been so well supplied in the scheme of Ranade that after the lapse of half-a-century it remains to do little more than to supply the necessary details and the circumstantial modifications.

SUMMARY

In view of the favour now bestowed all the world over on a regime of regulated capitalism and of the interest roused in our own country in the subject of economic planning an attempt has been made in this paper to piece together Ranade's ideas on the subject. It is seen that while Ranade hailed industrialisation as the only solvent of Indian poverty he desired to commence the process from agriculture itself. Considering the traditions of collective action to which our people are accustomed as also the sudden compact of our society with superior Western economies Ranade felt that a state induced, state guided and state controlled industrialisation was suited to India. He did not desire to outlaw either property, which he considered a social trust, or free initiative, which to him was the very motor of human civilisation. The implications of capitalistic industry were, however, seen to be essentially collective and hence the whole bias of his thought is in what may be described as a 'state socialist' direction. According to his scheme we could benefit by others' example and secure for us the blessings of a mixed economy under the leadership and control of a national state.

Some details of economic reforms suggested by Ranade have also been given where they appeared to have a topical interest.

RANADE AND AFTER: A STUDY OF THE DEVELOPMENT OF ECONOMIC THOUGHT IN INDIA

BY

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Economic study and economic theory are, in their origins, closely related to practical problems. Theory develops under the impetus of the desire to justify proposed remedies or solutions for a practical problem in the face of the tenets of currently accepted theory which would interdict these remedies or solutions. The development of economic thought in India provides a very interesting and a rather peculiar instance of this general truth.

The operation of this principle in the development of economic thought can be seen as we watch the way in which the great systems have emerged and it can also be seen in the coming to birth of the less comprehensive variations of theory. For example the Mercantilists were faced with a problem for which their solution was the creation of a strong nation-state. They developed their theories of taxation, balance of trade, accumulation and use of wealth, the hierarchy of occupations (with agriculture the least important), governmental functions, etc., in opposition to the formerly prevailing theories that would have disallowed their remedy—theories rooted in the Feudalism which implied that the King should live as other barons did on the revenues of his private estate, and which frowned on freedom of enterprise, pursuit of profits, and the conception of independent states.

In a similar way it can be seen that the Physiocrats and Adam Smith developed their characteristic theories in the course of overcoming the objections, based on the prevailing orthodoxy, to their remedies for the defects of a practical situation. The tendency for new theory to emerge in this way can be observed also in such modern cases as those of Major C. H. Douglas and his *social credit* theory and in the

case of Barbara Wootton. The last-named in her books, "Plan or No Plan" and "Lament for Economics", indicates that the remedy for the economic evils of the present time is economic planning. She finds this remedy opposed on the grounds of the theory inherent in the prevailing economic doctrine that *market equilibrium = the economic optimum.* She therefore moves towards a new theory of the nature and scope of economics which relegates this equation to a limited portion of the field and which looks forward to the development of Economics as an *art* similar to medicine rather than as over-sophisticated science.

The Clash between Proposed Remedies and Dominant Economic Doctrine in India.

The rise and progress of economic thought in India is closely associated with the desire to solve the problem of Indian poverty. We shall therefore inquire whether, in a manner similar to the instances considered above, the proposals for the solution of this problem came up against current economic theory and whether the consequent friction gave rise to new theory.

The modern Indian Economics may be said to take its rise in the writings of M. G. Ranade and to date from the time when he began to publish papers on economic subjects in the Journal of the Sarvajanik Sabha in 1878. Ranade links Indian Economics to the "one question" which, he says, the Indian people from time immemorial have asked and with which all Indian works on philosophy and science begin and end, namely, the problem of deliverance from evil. Indian Economics thus starts out by being an investigation into the problem of how we can be delivered from "the evils we suffer by reason of our physical surroundings." Putting it positively, we might say that Indian Economics sets out by being a study of social welfare in its material aspects.

Ranade's problem then is the poverty of the Indian people. Of his many statements of this problem, we may take as an example the following one which he gave in his paper on "Land Law Reforms and Agricultural Banks," in 1883:

"We have thus a poor soil [he is referring particularly to the Deccan] afflicted with scanty and irregular rains, inhabited by a sparse population, for the most part agricultural and uneducated, with no openings for labour save an exhausted soil, with average holdings of less than ten acres per each head of family, burdened with a payment of State demand which represents one-third of their net gains, forced to be content with a hand-to-mouth subsistence represented by a maximum of Rs. 60 for a family, and involved in heavy bonds of debt under circumstances beyond their control to a numerous mass of small creditors, largely foreign in their domicile, and not prepared to take up cultivation of land on their own account. These are the salient features of the social and economical condition of the people which it is necessary to bear in mind, while discussing the question of the best method of relief."

In many lectures and addresses he considered the causes of this poverty, and he lays stress on the following five:—

(1) The too great dependence on the single resource of agriculture to which the opening up of India to full contact with the West has brought her.

"The industry and commerce of the country," he declared in 1890, "such as it was, is passing out of our hands, and, except in the large presidency towns, the country is fed, clothed, warmed, washed, lighted, helped and comforted generally by a thousand arts and industries in the manipulation of which its sons have every day a decreasing share. Foreign competition, not because it is foreign, but because it is the competition of nature's powers against man's labour—it is the competition of organized skill and science against ignorance and

> idleness—is transferring the monopoly not only of wealth, but what is more important, of skill, talent, and activity to others."

(2) Lack of capital. In his paper on "The Iron Industry: Pioneer Attempts," read in 1892, Ranade showed how repeated efforts to revive the Indian iron industry had failed because of the insufficiency of capital.

(3) The bad system of credit which prevails in the country districts.

(4) The congestion of population in certain parts, with a resulting excessive sub-division of holdings.

(5) Lack of a spirit of enterprise and ambition.

The main lines of Ranade's solution of this poverty problem were: (1) Reform of the system of land tenure in India. (2) The improvement of rural credit. (3) The reform of the educational system and the development of technical education. (4) The growth of manufactures and commerce—this he believed to be the essential requisite of India's economic salvation.

> "What we have to do," he said in 1893, "is to learn by organized co-operation to compete with the foreigner, and take in as much raw produce from abroad as we need, and work it up here, and to send in place of our exports of raw produce the same quantities in less bulky but more valuable forms, after they have undergone the operation of art manipulation and afforded occupation to our industrial classes."

It is in connection with his remedies for India's poverty that Ranade comes into conflict with economic theory, or rather with the obstacle to the application of his remedies that came from persons in authority who believed them to conflict with certain universal and unescapable laws of Political Economy. Now it is at this point that things should begin to happen. For the characteristic situation is in existence—a clearly realized and keenly felt

problem; a proposed solution; the interdiction of the solution in the name of currently accepted theory. Such a situation is the fertile seed-bed of new theory. Let us see what happened.

Ranade's Answer to the Veto of Dogmatic Theory.

Ranade agrees that *if* the truths of Economic Science were abstract and universal like those of physics and astronomy then the interdiction would be decisive and final. But such is not the case, for the so-called laws of Political Economy are founded upon a number of assumptions and are true only to the extent that these assumptions hold good with reference to the circumstances that are under consideration. Moreover even where the assumptions are approximately true, the generalizations of Political Economy are valid only with regard to statical conditions and are not serviceable in connection with progress and development.

Ranade details the "assumptions" in a list of 12 items. An examination of them shows that they are the assumptions necessary for a perfect market, which requires an atomized society individualistically pursuing self-interest, a perfection of knowledge and capacity as regards self-interest, perfect mobility of labour and capital, and equality of bargaining power. The assumptions also imply that the free market is a safe and natural regulator, and that the market equilibrium gives the optimum result.

Ranade deals in two ways with these vital "assumption," which, if they were everywhere valid, would furnish the basis of a universal and dogmatic Science of Economics. He shows that the best Economists of Western Europe had departed from the idea that there were valid assumptions which made possible a universal and *a priori* Economics, and he shows that the assumptions upon which the earlier Economists claimed to have erected such a Science were entirely inapplicable to India. Let us briefly examine these two lines of thought.

(1) The best Economists of the end of the 19th century had come to see that the subject must be studied historically and inductively, and that it was not sound procedure to build a system of dogmatic conclusions upon

the postulates of individual self-interest and unrestricted competition. Acknowledgment of relativity and admission of the claim of collective welfare over individual interests had become the principal features in which the newer Economics differed from the older School. In this way Ranade showed that the dogmas relied upon by those who opposed his solution of the poverty problem were now discredited by the best economic thought. Therefore the dogma of the *territorial division of labour* cannot be appealed to in order to confine India to the production of raw materials and to bar the way to a diversified industry; the dogma of *laissez-faire* cannot be appealed to to prevent whole-hearted Government action for the development of industries; the dogma of *unearned increment* cannot be appealed to prevent reform of the land-revenue system; and the dogma of the *limitation of the State's functions to law and order* cannot be appealed to so as to hinder the State from taking care of the national needs in all matters where other means are likely to be less effective and economical. (2) Ranade argues that while the "assumptions" upon which the old, dogmatic, universal Economics was based are literally true for no existing society, they have hardly any validity at all for such a society as is found in India. He goes so far as to say that in India the average man is, to a large extent, "the very antipodes of the economical man." The facts upon which Ranade substantiates this conviction are that in India there is little freedom of choice in the matter of occupations, as that is largely decided by family and caste; pursuit of wealth is not the exclusive motive, other ideals than wealth being operative; custom and State regulation are more powerful factors than competition; status is more prevalent than contract; neither capital nor labour are either mobile or enterprising; wages and profits are fixed and inelastic; population follows its own law (which presumably means that it goes on unchecked by preventive means) and is cut down by disease and famine; production is almost stationary—"the bumper harvest of one year being needed to provide against the uncertainties of alternate bad seasons." Ranade's conconclusion is that in a society so

characterized, the tendencies which the older, dogmatic Economics assumed as axiomatic are not operative. Indeed the tendencies under such conditions must have directions different from those of a society characterized by individual freedom, motivation by self-interest and desire for wealth, mobility and enterprise on the part of labour and capital, sensitivity and elasticity in wages, interest and profits, competition, contract, restricted population and expanding production.

Ranade's Appeal from the Older to the Newer Economics.

We see then that Ranade has a double reply when he finds that his remedy for India's practical problem is menaced by Economic theory. His first reply takes the shape of an appeal from the older Economics, which claims to exercise the right of Science to be dogmatic, to the newer Economics whose claims are more modest and which recognises the relativity of theory to social conditions and encourages the direct pursuit of the collective welfare. The negative and indeterminate nature of this reply of Ranade should be recognized. It does little more than disencumber the mind that accepts it of the fear that the nature of things may render Ranade's remedy futile. It might indeed be said that the tendency of his reply is to renounce Economics as a Science and to embrace it as an Art. Ranade was aware that this deduction might be made, but he emphatically rejects it in his address on "Indian Political Economy" (1892).

In it he says:—

> "There are those who seek to get over this difficulty by differentiating the science from what they are disposed to call the art of economy. This divorce of theory and practice is, however, a mischievous error, which relegates the science to the sterility of an ideal dream or a puzzle, and condemns the art to the position of a rule of thumb. Theory is only enlarged practice, practice is theory studied in its relation to proximate causes."

Now it is difficult to avoid the conclusion that if "relativity" is made the basis for rejecting the classical system founded upon "market-analysis," then either there can be no Economic science or else there must be an indefinite number of separate Economic sciences each correlated with a specific set of social conditions. By appealing away from the earlier classical system to the newer attitude that had come into vogue (an attitude which insisted that problems must be studied in close relation to their social environment, which said that generalisations were relative to time and place and which sought to control the social environment in the collective interest, not leaving things to be moulded by the unmodified interaction of the multitude of private interests in blind trust that the greatest good of all would thereby be automatically achieved) Ranade took a step which certainly threw doubt on the validity of the classical "market-analysis" scheme as a science productive of true and useful generalizations. But it was a step which called for another. It called for a definition of Economic Science and a clear indication whether the market-economics of the classical school remains the core of economic theory which is to be applied with due modification and caution to conditions characterized by varying degrees of rigidity and imperfect competition, or whether Economics is really a study of social welfare in its material aspects, doubtfully to be called a science, and closely related to the practical accomplishment of social purposes. This was a line of investigation however that Ranade did not pursue—perhaps because he was too busy with studies that had a practical bearing on the problem of removing India's poverty, such as his investigations into the agrarian problem, rural credit, the present state of Indian manufactures, land law reforms, the iron industry, and his efforts to cull for India the fruits of the experience of other lands as in his study of Netherlands India and the Culture System.

Ranade's Use of the Idea that Indian Economic Conditions are Antipodal.

In defending his solution against the interdict laid on

it by the tenets of an *a priori* Economics, Ranade not only appeals to the newer Economics, he also in some places gives the impression that he conceives the whole basis of Economics to be quite different in India from what it is in the Western world. Here then we prick up our ears with expectation. For here we have a thinker, trained in Western Economics, who believes that Economic theory is relative to particular social conditions and who thinks that Indian conditions are radically different from those in relation to which the classical Economics was formulated. Hopefully we murmur. Now we shall see new theory emerging! But again we are disappointed. No new theory appears. Now if the classical Economics is ultimately based on the concept of the economical man and if the average Indian is "the very antipodes of the economical man," then why do we not find a new Economics emerging based upon this "antipodes"?

The pure theory of Economics is based upon two main pre-suppositions—perfect mobility (implying perfect competition) in the case both of the factors of production and of commodities, and the divisibility of the supplies of factors and commodities into small units. The marginal analysis is based on these two pre-suppositions, and the system reared on them is admitted to have been fundamentally in relation to the actual economic world of 19th century England.· But in the villages of India the normal type of economic life tended to evince perfect immobility (with fixity in the quantity of land and of labour, with a division of labour determined by custom and with entry ino each occupation regulated not by relative net advantages but by the caste into which persons happen to be born), and indivisibility of the supply of factors and commodities (*e.g.*, the supply of workers does not have the form of a collection of units, in competition with each other and capable of being applied singly). Under these pure Indian conditions there is an exchange not of goods but of services and the remuneration of the services is determined arbitrarily by a distribution imposed through social power. There is no real bargaining since there are no alternative uses for the factors and products. There is bilateral

monopoly, the outcome of which as regards distribution is recognized as being completely indeterminate. Under such conditions, the division of the product of industry can, to use the words of Miss L. C. M. Ouwerkerk (in an article entitled "The Relevance of accepted economic Theory to Indian Conditions," published in *The Indian Journal of Economics* for October, 1937), only be determined by "social custom' and the relative social strength of the two parties."

Why then did not an Economic science arise correlated to these typically Indian conditions of a "rigid" society? The answer is that there cannot be a science where the determinants are social custom and the relative social srtength of two parties. And then whenever the rigidity of the Indian society began to be modified by the appearance of some slight mobility, some little element of competition, some possibility of alternative uses for factors and commodities, then at once the economic explanation of the society's functioning enters upon that path (very simple to begin with, it may be) which leads ultimately to the highway of the thoroughgoing market-analysis and its economic laws.

Therefore we come to the conclusion that so far as the Indian conditions are really different from the conditions out of which the classical analysis was evolved, they can give rise only to a descriptive study and not to a new economic science. There cannot be a science unless there are some kind of calculable, objective forces operating, so that phenomena are seen to be results of the interaction of these forces. Economics is a science because at its centre it is a study of the equilibria and the disequilibria which emerge when people are seeking to attain ends by the use of scarce means that have alternative uses. The more perfect the market is, the more the economic phenomena take on the character of objective results brought about by impersonal forces, and the more appropriately can the generalizations extracted from the study of the phenomena be given the name of scientific laws.

These considerations are sufficient to show us why it is that Ranade, after raising our expectations by his challenge to the market-economics of classicalism and by his

declaration of independence, yet disappoints us of anything new in the realm of theory and why in his hands Indian Economics is a study of social welfare animated by the purpose of improving the material conditions of the Indian people. The attitude of Ranade towards Economic Science would probably have been accurately expressed by the following dictum of J. M. Keynes:—"The theory of Economics does not furnish a body of settled conclusions immediately applicable to policy. It is a method rather than a doctrine, an apparatus of mind, a technique of thinking which helps its possessor to draw correct conclusions."

The Way in which Economic Thought in India Has Kept to the Lines Laid Down by Ranade.

The development of economic thought in India since Ranade has kept with remarkable closeness to the lines that he himself followed. It has been predominantly descriptive of ancient institutions, transition periods and present-day economic affairs, showing how the system of arrangements for satisfying wants has worked or is working. It has been dominated by the practical motive of solving India's poverty problem and improving her economic condition. It has been strongly influenced by nationalism. The description and analysis have not blossomed into anything new in theory for Economics. Throughout the period since Ranade, one can detect a continual undercurrent of suggestion that India is "different." This undercurrent however never operates in such a way as to bring forth variety of economic theory. When made explicit, the "difference" is generally acknowledged to be a diminishing element that must disappear as India comes more eand more completely within the sweep of modern influences—unless indeed among those who hold the social ideals of Gandhiji and who would like to bar the advance of these modern influences. The truth seems to be that in Indian economic thought as in the economic thought of the West the system of market equilibrium in a perfectly competitive regime, while denied as actual reality, yet presides over the situation in some such way as the Platonic Idea presides over its sensuous embodiments.

Text-books that go to several editions are a fairly reliable evidence of the way that the main body of thought in connection with a subject has been moving. We may therefore quote V. G. Kale's "Indian Economics" (first published 1917) fourth edition to show the predominance of the point of view of Ranade. In it we discover that the function of Indian Economics is to be descriptive, ameliorative, and judge of the degree to which economic theories (presumably the theories of the neo-classical school) are applicable under Indian conditions.

> Thus Professor Kale says that Indian Economics "deals with peculiar political, social, intellectual and economic conditions which constitute an important subject of research and study," and he says that "there is general agreement that the progress of the country and the promotion of the welfare of its people demand a scientific investigation . . . into the material condition of the various classes of the community in India with a view to finding out remedies for its amelioration," and he further says that "the methods and the motives of the economic activities of the Indian people, correlated, brought together and arranged in their appropriate places, constitute the material of Indian Economics, which further seeks to apply the principles of Economic Science to that material and points out the limitations to which the theories are subject in the working of economic laws in India."

It is clear that Professor Kale regards his function as an Economist to be one of using economic theory as a "technique of thinking" that will help him to draw correct conclusions while seeking to improve the economic conditions of the people of India.

The position of Professors Jathar and Beri (joint-authors of a text-book, first published in 1928, which has reached a sixth edition) is practically the same as that of Professor Kale. They say:

> "Indian Economics may be briefly, simply and sufficiently described as a study of the principal economic problems of India with an analysis of their probable causes and of any measures that have been or might be taken to deal with them. An examination of the economic position of the country will naturally lead to a criticism or appreciation of public policy in India and to the formulation of schemes for effecting improvements in the economic condition of the country. The point of view throughout will be national, the object being, first and last, the material advancement of the Indian people . . . . Indian Economics is a realistic study wholly concerned with the facts and problems of Indian economic life, reference to economic theory proper being relevant only in so far as it helps the understanding of these facts and problems" and they add that in dealing with Indian economic problems it is necessary "to invoke the aid of western economic theory at every step."

Verification of the truth of the assertion that economic thought in India has been dominated by the point of view set forth by Ranade 60 years ago, may be found also in the interesting Presidential address given .by Professor D. R. Gadgil to the Indian Economic Conference last year. He more or less repeated in an up-to-date embodiment what Ranade said in his address on "Indian Political Economy" in 1892. His practical advice reiterates Ranade's warnings,

> "We must reject the *laissez-faire* bias in economic speculations, reject the pseudo-universalism which consists merely in the assumption of a uniform set of conditions as ruling in the world without inquiry into the differing needs and circumstances of the various people, and we must beware of the immense difficulties involved in the application of the results of theoretical analysis to practical problems."

Classification of the Content of Economic Thought in India since Ranade.

The content of Indian economic thought since Ranade can be classified under the following four heads:—

(1) *Descriptive Studies.* There has been a great deal of this sort of thought, going along the lines of historical research, original investigation and presentation of facts gathered from blue books and other sources. This has disseminated a knowledge of how production is being carried on, how goods are being marketed and exchanged, what kind of standard of living various sections of the community enjoy, how the banks, the currency system and the foreign exchanges function, how the public finance is conducted, etc., etc. The reports of many Government commitees and commissions would come under this heading and they have shed much light on the country's economic institutions and economic conditions.

(2) *Criticism of Government policies as they affect economic conditions.* There has been a wide and persistent development along this line, and it is in this connection that we get the nearest approach to the emergence of an Indian school of thought on economic subjects.

(3) *Schemes for the material advancement of India's people.* The number of these is legion and they extend over a wide range, from industrialization and financial reconstruction to village improvement and the prevention of soil erosion. The Government committees and commissions have also played their considerable part under this heading.

(4) *Economic Theory.* There has been no breaking out of new theory from Indian economic thought on any considerable or striking scale. Considerable activity takes place in the way of elucidation of systems of economic thought that have originated elsewhere, and some elaboration or modification in details is occasionally suggested. A very few Indian economists join occasionally in the battles among the leaders of the world's economic thinking. There have been in recent years able treatments of such subjects as the National Dividend, Population, Banking, Public Finance and the Trade Cycle by Indian Economists

who have absorbed the Western disciplines and who, having become adept at using the tools of Western economic analysis, can play the game of economic controversy according to all the accepted Western rules.

I have made an analysis of the subjects of the articles published in 45 issues of *The Indian Journal of Economics* from the year 1923 to the year 1941, "Conference Numbers" being omitted from consideration. The number of articles examined comes to 281. I have classified them in seven categories, namely, (1) Descriptive Economics, *i.e.*, articles that give an account of something that is of interest to economists and that give information about the working of economic institutions, experiments and schemes, etc. (2) Articles that give the results of historical researches, contributing to the economic history of India. (3) Articles that give the results of original investigations into institutions or conditions hitherto unstudied. (4) Articles that elucidate economic theories. (5) Articles that apply economic theory to problems. (6) Articles that discuss Government Reports. (7) Articles on the teaching of Economics. The analysis gives the following result:—

Type of Article	Number of Cases	Percentage of Total	Remarks
Descriptive Economics ...	95	33·3	18 of the cases introduced comparison with a reference to foreign countries.
Historical Research ...	39	14·0	
Original Investigations ...	27	9·7	6 of the cases were village surveys.
Elucidation of Theory ...	53	18·8	10 of the cases might be called original contributions.
Application of Theory to Problems	54	19·2	
Discussion of Government Reports.	9	3·2	
Teaching of Economics ...	4	1·8	
	281	100·0	

The fact that 57% of the articles can be classified under the headings of Descriptive Economics, Historical Research and Original Investigation suggests that a large proportion of the economic thinking in India is taking the form of an endeavour to understand the economic environment and to make available a knowledge of things that are relevant to the effort to improve the economic condition of the people. The fact that 22% of the articles come under the headings of Application of Theory to Problems and Discussion of Government Reports shows that the interest in direct measures of amelioration is strong among those who are thinking about economic affairs. The 18% under Elucidation of Theory suggests that the interest in descriptive studies and in the practical effort to improve conditions is not ousting the conviction from Indian thinking that Economics has a scientific aspect. We can in fact say that the above table helps to corroborate the impression that the writings of Ranade are like an index to the themes with which Indian economic thought in the past fifty years has busied itself.

SYNOPSIS

A fruitful source of economic theory is the need for justifying proposed practical remedies which are vetoed by the prevailing theory. Examples can be seen in the case of the Mercantilists and of Barbara Wootton. Ranade's proposals for dealing with India's problem of poverty were unacceptable to the older economic orthodoxy. He answered its veto (1) by appealing to the newer economics which had abandoned the idea that a universal, *a priori* Economic Science could be valid, and (2) by asserting that the pre-suppositions upon which the earlier Economists had erected their dogmatic science were entirely inapplicable to India. His appeal from the older to the newer Economics raises problems concerning the nature of economic studies and whether there is such a thing as a science of Economics. His assertion that Indian conditions are antipodal to those of the Classical "assumptions" raises the expectation of new theory, which however does not materialize. Economic theory is for Ranade a "technique of thinking," and Indian Economics a study of social welfare inspired by the purpose of improving the material conditions of the Indian people. Economic thought in India has kept remarkably close to the lines laid down by Ranade. This is brought out by reference to two popular text-books on Indian Economics, and to last year's Presidential address to the Indian Economic Conference, and by some classification and analysis of the content of Indian economic thought since the time of Ranade.

THE BACKGROUND OF RANADE'S ECONOMICS

BY

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It is now half a century since Ranade wrote; and for this period of fifty years Ranade has remained a Classic with the students of Indian Economics. In all our studies of the problems of industry and commerce we attach more value to what Ranade had written than perhaps to the views of any individual writer. We begin our study of Indian Economics by recounting the famous list of differences between our economic conditions and those of the West, and we note, sadly perhaps, that much of these differences still remain. More important than this is our attachment to Ranade's idea that conclusions regarding Indian economic problems and policies should be drawn with special reference to the peculiar conditions of the country and of the people. In Ranade's age it required boldness to say even this; and, if today we regard this as the only normal attitude, we must remember that it is Ranade's influence that has substantially helped in bringing about this result.

The present-day student of economics in India is, however, able to note a number of features that distinguish Ranade's ideas from those that would find unanimous acceptance today. In the first place, he can be ranked among the relativists in economics along with Roscher, Knies and Hildebrand. He was thoroughly conversant with classical economic theories; but in criticising these theories he fell into the same pitfall into which had fallen the German economists of the Historical School. Like them, he began by criticising certain *theories* and remained later an advocate of certain economic *policies*. Like them, again, he failed to note the existence of an important distinction between economics as a scientific study in causation and economic policy as a method of procedure.

The second distinguishing feature of Ranade was that he was an economic nationalist—of the type that was usual in a country where pioneer industrialism was experiencing the internal resistance of backward conditions and external resistance from developed industries abroad. It is worth noting that his economic nationalism led him to give a stamp of approval to mercantilism, and, consequently, the scheme of his economic policy became one which a later mercantilist would have found possible to call his own.

The third distinguishing feature of Ranade's economic policy was his insistent demand for state-paternalism. The realisation of the futility of demanding protective tariffs from the rulers of India in the eighteen-nineties led him to advocate direct action of the State with a view to causing a diversion from small-scale agriculture to large-scale farming, from agriculture itself to industries, from 'rustication' to urbanisation, from internal trade to external trade, and lastly from labour-immobility to colonial migration. All this was to be brought about by the active encouragement and assistance of the state.

The fourth characteristic emerges from this. What he advocated was state-paternalism, *and nothing more*. His paternalism was poles away from state-socialism or even state-capitalism. He was not in favour of the state itself becoming the pioneer of industrial development, even if for its own benefit. He was always careful to attach importance to private efforts; he wanted the state not to do what the private individuals could do, but to do everything that would give them a momentum towards better life. And, his paternalism did not contain even a trace of socialism; the scant respect that he showed to socialistic ideas, and even to any criticism of capitalistic industrialism is particularly surprising when one remembers that Ranade was thoroughly familiar with the thought-currents in Europe.

This brings us to one of the most singular features of Ranade's economics. Writing at a time when capitalism had secured a trial of more than a century in England, and of about half a century in many other countries, he showed a striking lack of understanding of the evils associated with an industrial revolution. Throughout his writings one

searches in vain for any reference to the necessity of justice between the classes, to the evil effects of concentration of capital in the hands of a few, to the need for trade unions, or to the importance of comprehensive measures to protect the interests of the employees *vis-à-vis* those of the employers. It is surprising that writing in the last decade of the nineteenth century and showing an extraordinary ability of distinguishing the good from the bad, he should fail to realise the contradictions inherent in the Western compromise between democratic political institutions and a capitalistic economic system. To the sceptic student of today, the entire scheme of Ranade's economics appears to be tinted with an optimism that is almost romantic.

To a large extent, however, a man and his ideas are the product of the ideas and objective circumstances that history has brought down to him. It should therefore be interesting to study the background on which Ranade's economics was built up. The range of the period during which his essays appeared was remarkably short. The first eight essays in Natesan's collection were all written or published within a period of four years from 1890 to 1893.[1] His essay on the Bengal Tenancy Bill published in 1883 shows that his ideas had at that time been taking shape, but it is evident that the final formulation came in the early years of the nineties. Once they were formulated, they became crystallised, and it is because of this that there is the same refrain about state-paternalism with a view to bringing about economic self-sufficiency in all his essays.

Ranade wrote at a time when the Government of India had been following an economic policy based to a very large extent on the needs of British mercantile interests in India. No economic policy has perhaps ever been adopted by any country, except the U.S.S.R., for the mere reverence for an abstract ideal. Need always dictates policy, and principles are moulded so as to give a refined background to the particular policies that have to be adopted. In India, too, when

[1] All references to Ranade's writings are to *Essays on Indian Economics*, Second Edition, published by G. A. Natesan and Co., Madras, in 1906.

our administrators had been trying to bring complete free trade the main reason was to give the British exporters an unrestricted access to the Indian markets. From 1882 to 1894, India was practically a free-trading country, and it was towards the close of this period that Ranade wrote his essays.

The adoption of free trade in itself would not perhaps have set Ranade thinking, unless it had come to synchronise with an antithetic movement in the West. The period during which Ranade's economic writings saw light was one in which Germany, France and the U.S.A. had all been experiencing the benefits of prosperous protectionism.

By 1852, almost the whole of Germany had come to be included in the *Zollverein*, and the measures that had been adopted during the forties were definitely influenced by the ideas of Friedrich List whose book had been published in 1841. Towards the sixties, however, there had come a tendency towards removal of restrictions. The German Economic Congress established in 1858 was a body definitely against state-intervention of all kinds, and the new Customs Union that followed the *Zollverein* in 1866 was showing clear signs of an anti-protectionist tendency. But this tendency was short-lived. The protectionists could not be subdued, and, led by Bismarck, they triumphed over the German members of the Manchester school in 1879. Ranade, therefore, wrote at a time when free trade had been tried and discredited in Germany.

The record of France was almost a duplicate of this. The Second Empire founded in 1852 was definitely against protection. On the lines of the work of Peel and Gladstone in England, a 'liberalising' movement was set on foot, culminating ultimately in the Cobden-Chevalier treaty of 1860. But reaction came in soon. The Third Republic brought protection back again; in 1881, and in 1885 the tariff was readjusted to give effective protection to the industries and at the same time to serve as a basis for negotiation of commercial treaties. Ranade was evidently a close student of European history, and this swing-off from *laissez faire* in France as well as in Germany could not have failed to influence him.

The U.S.A. in the eighties was unqualifiedly protectionist. Even Great Britain, after having worshipped *laissez faire* for about half a century, had come to question its efficacy and even its theoretical foundations. The imports into Great Britain had come to be increasing rapidly, and the depression in agriculture during 1885—90 was supposed by many to have been caused by foreign competition. Public opinion was coming to be influenced by the policy of economic nationalism adopted by the neighbouring countries. A campaign for fair trade as a substitute of free trade had already been launched, and the ground was being set ready for Joseph Chamberlain.

Ranade, thus, wrote at a time when the Government of India was extolling a policy of *laissez faire*, while such a policy had been definitely abandoned in the European continent and in America, and while the end of *laissez faire* had come to be in sight in England. The only important socialistic measure adopted in India in the eighties was the Factory Act of 1881; but it is well known that this measure was enacted more in the interests of the manufacturers in Lancashire than in those of the labourers in Bombay. Public opinion however had just started being critical of the indifference of the Government. The founding of the Indian National Congress and the commencement of the practice of holding annual sessions of the Industrial Conference were both representative of the uneasiness which thinking Indians had come to feel.

Ranade's ideas were, therefore, shaped by a combination of facts and forces of a diverse nature. But all of these led him to one final position. Nothing, he felt, would solve the economic difficulties of India unless the country was fully industrialised, and unless the Government would play a very active part in bringing this result about within the shortest possible time. He wanted the Government to encourage cultivation according to the Dutch Culture System in the East Indies, *i.e.*, to industrialise agriculture as far as practicable. He wanted that the Government should stimulate emigration of Indians into colonies abroad. He advised the Government to help the iron industry by lending money, guaranteeing debentures, granting land free of cost and

assuring continuous demand for the output. And, lastly, he wanted, very much like the German economists of the Historical School, a balance between *agrarstaat* and *industriestaat*, and, more broadly, between rural occupations and urban occupations.

But while he wanted all this with the enthusiasm of a pioneer reformer, he did not advocate the tariff as a means for expediting industrial development. This is particularly strange in view of the fact that all the countries from which Ranade had drawn inspiration had adopted the tariff as the only potent instrument for industrial development. Ranade wanted the results obtained by these countries, but was not prepared to recommend their methods. To him the abandonment of *laissez faire* would not mean the abandonment of free trade, but a policy of direct help by the Government to bring about specific improvements in particular fields and of planned encouragements and discouragements. He had taken his cue from the tariffists but his state-paternalism included everything short of the tariff.

His ideas about what the Government should do were precisely stated in his inaugural address at the first Industrial Conference at Poona in 1890: "While we put forth our energies in these directions, we can well count upon the assistance of the State in regulating our Co-operative efforts by helping us to form Deposit and Finance Banks, and facilitating recoveries of advances made by them, by encouraging New Industries with Guarantees or Subsidies, or loans at low interest, by pioneering the way to new Enterprises, and by affording facilities for Emigration and Immigration, and establishing Technical Institutes, and buying more largely the Stores they require here, and in many cases by producing their own Stores."[2]

It appears, however, almost certain that his indifference towards the tariff was the result of the realisation that it would be futile to attempt to induce the Government to adopt a protectionist policy. He was himself probably convinced, as were English economists of his time, that the case for free trade was fundamentally strong and that the case for

[2] *Essays*, p. 207.

protection had always to be on the defensive. But then the whole of the economic policy advocated by Ranade was on the defensive, representing, as it did, a breaking away from the established line of action. The tariff would have been nothing more than this. Ranade would have been a tariffist if he had not realised that to ask for a tariff in India in 1890 would be almost equivalent to asking the British to leave India. Ranade was enough of a realist to limit his demands to the minimum that our rulers could and would give. The tone of helplessness in the following passage is telling: "It is not open to us to adopt certain plans of operation, which, however much they might be condemned on abstract grounds, have been followed with practical success in many of the most enlightened Countries of Europe and America. We cannot, as with the Government of these countries, rely upon Differential Tariffs to protect Home Industries during their experimental trial. We cannot expect the Government here to do what France or Germany does for their Shipping Trade, and their Sugar Industry, and ask Government Bounties, and subsidies to be paid out of general Taxes. These are heresies according to English Political Economy, such as is taught to us, and whether they be really so or not, it is useless to divert our energies in fruitless discussion and seek victory over Free Trade."[3]

We may now pass on to a detailed examination of the influences operative upon Ranade. To a large extent, as we have already seen his ideas were shaped by Continental experiments, and, particularly, by the economic policy of the Germans under Bismarck. These, however only helped to strengthen the ideas that had been moulded by the German criticism of the so-called English liberal tradition. He shows intimate familiarity with the thought-currents of the German Economists of the Historical School; and his mention of Cliffe Leslie perhaps proves that this familiarity came through his readings in the writings of latter-day English economists of the 19th Century.[4]

[3] *Essay*, p. 202.

[4] Cliffe Leslie's *Essays on Political and Moral Philosophy*, published in 1879, marshalled together all the German arguments against Smithianism.

The first thing that strikes a modern reader of the writings of Ranade is the recognition he gave to the Mercantilist doctrines. He regarded it as "utterly unfair and one-sided" to consider the Mercantilists as bullionists simply. The picture he gave of the ideals of Mercantilism —incorporating the putting of "a higher value on Commerce and Manufactures than on Agriculture, on Foreign over Home Trade," encouraging exports and discouraging imports with a view to developing home manufactures, and prescribing "the directive control of the State in the way of stimulating domestic manufactures and encouraging Commerce" is one which is almost totally in accord with the ideals he himself preached. If the bullionist bias is excluded from the doctrines of the Mercantilist, it becomes easy to identify Ranade as one of their group. It is interesting to note that Ranade was able to distinguish clearly between Bullionism of the fourteenth and fifteenth centuries and Mercantilism proper that arose after industrial capital had begun to accumulate in England as the result of overseas trade; in this respect he can certainly be given the credit of anticipating what Cannan and others were to point out much later.

In discussing the ideas of the economists who followed the Mercantilists, Ranade took much care to bring into clear relief those views that would support his own general position. He emphasized, for example, that Adam Smith had regarded Manufactures and Commerce as greatly efficient in creating wealth, and that Smith had also justified the Navigation Laws of Cromwell which "had helped greatly to ensure English commercial supremacy." His attitude towards Smith, however, was more generous than towards the later Classicals. He noted with care every bit of criticism directed by the German Romantics and the Historismus-economists and also by the later English writers against the fundamentals of the classical assumptions and the deductions following from them. His formidable list of the *differentia* of Indian economic life was practically a challenge to the traditional assumptions of English economics.

The greatest of all the *positive* influences that shaped the ideas of Ranade were, of course, those of Friedrich List

and the German relativists, who on the one side attacked the absoluteness claimed by English Classicals for their doctrines, and on the other side emphasized the need for a balanced economy. The language of admiration that Ranade used in speaking of the writings of List—"which gave the fullest expression to the rebellion against the orthodox creed"—is in itself significant. And, besides, it was quite natural that Ranade would be warm over the writings of one who regarded a purely agricultural economy as one of stagnation and one who considered no cost too great for expediting the passage from an agricultural to an industrial economy and then on to an industrial-commercial one.

There is a striking similarity between the position of Germany in 1841, when List's book was published, and the position of India in 1890, when Ranade had commenced his advocacy of industrialisation. In Germany, the *Zollverein* had already come into existence between 1819 and 1828. Industries had commenced to grow, encouraged, on the one side, by the free movement of goods within the Union composed of units complementary to one another in respect of resources, and, on the other, by the protection of the new industries from external competition. The *Zollverein* only needed a philosophy to stand behind it, and it was List who supplied this ideological background which gave support to the policy that Germany had already made its own.

List criticised Adam Smith severely for the latter's 'liberal cosmopolitanism' and atomistic views. But, in fact, List's ideas originated in the same set of circumstances from which Smith got his inspiration. Both Smith and List were economists of nascent industrial capitalism. Germany in List's time was passing through the transition that England had experienced towards the close of the preceding century. But while the newly-born industrial capitalism of England could develop at a time when no other country had started on an industrial career, German economic development was set on foot at a time when England had already established her position and when Germany's neighbours were making parallel progress. The growth of industries and commerce in England required only the removal of obstacles; a similar

growth in Germany had to meet strong and irremovable external obstacles which could only be overcome by counter-measures. The needs of British industry made the English Classicals free traders and non-interventionists; the needs of German industry made List a protectionist. If Germany had experienced the industrial revolution first, List would have been a free trader; if England's industrial transition had come later, English classical writers would have been advocates of state-action.

If List was the economist of the German industrial transition, Ranade was the economist of a similar transition in India. India in 1890 was almost in the same stage of the industrial revolution as was Germany in the thirties. The agriculture-*cum*-handicraft stage was the general condition, and the seeds of industrial capitalism had just been sown. The jute mill industry was raising its head on the banks of the Ganges. In Bombay, Nagpur and Ahmadabad, cotton mills were growing up. Paper mills had commenced working at Bally and Titaghur and the 'pioneer attempts' in manufacturing iron and steel had roused hopes in Ranade's mind. Dr. Watts' Report gave scope to ambition, and Ranade realised that the new turn could be made effective by active direction and help from the state.

He realised very clearly the difficulties. The nascent stage in industrial development in Germany began in the midst of obstacles and resistances from the outside, and List's scheme was accordingly devised so as to be able to overcome and surmount these difficulties. The external resistance to the economic development of a single country naturally increases in direct proportion to the degree of development reached in other countries. India, therefore, found this resistance greater than that experienced by Germany in 1841, which, in its turn, found the resistance to its own progress much greater than that experienced by England. The main resistance that England had to face in the early stages consisted of hindrances to free movement of resources and finished products, and it was realised by English economists that all difficulties would disappear if hindrances to free movement were removed. Even, in spite of this, however, actual 'liberalisation' came in England

only when Huskisson had come to be the president of the Board of Trade. The resistance that Germany had to face was the result of the competition of the developed industries of England, and, naturally, protection was devised to neutralise this difficulty. India suffered from a much stronger negative pull on account of foreign competition, lack of initiative among the people, the vested interests of British Commerce, and also on account of the policy of the Government regarding what was good for England *in 1830* as good for India *in 1890*. Ranade had therefore to be almost an eclectic in prescribing remedies for securing the progress of India in the direction of industrial capitalism.

The needs of the newly-growing industries of England made the English classical writers free traders. The same needs made List a protectionist and Ranade a Mercantilist. In essence, therefore, Smith, List and Ranade were all 'national' economists. The accusation of Smith by the Germans that he was a cosmopolitan was baseless; the cosmopolitanism of Smith was dictated by the national interests of England as much as the protectionism of List was shaped by the requirements of German capitalism. The *laissez faire* that England extolled was not simple inaction, but inaction with a view to making capitalism work. This purposive element in the policy of *laissez faire* made it as effective a policy of state *action* as protective tariffs or mercantilist control.

It is this essential similarity between the basic position of the Classical writers on the one side, and List and Ranade on the other, that explains another difficulty. The whole of Ranade's writings, as we have already noticed, is characterised by a singular lack of appreciation of socialist ideas. The case he stood for was a case for economic justice to the Indians as a body, and not one for justice between the classes. The provisions of the Bengal Tenancy Bill giving rights to the raiyats against the zamindars were criticised summarily by him with the remark that those proposals could "only be justified on socialistic or communistic grounds."[5] It is even more surprising that a man like him

[5] *Essays*, p. 308.

should speak of communism and Mormonism as ideals of the same order.[6] His own positive ideal was one which incorporated "high and petty farming, with an upper ten thousand of holders of very large landed estates and a vast mass of peasant farmers," and "this mixed constitution of rural society" was regarded by him as "necessary to secure the stability and progress of the country."[7] In the same manner, he gives his entire attention to the development of industries and commerce and entirely ignores the effect that capitalism would have in creating injustice between different social classes.

And, yet, Ranade could have considered all this. He wrote at a time when capitalism had come to be challenged by quite a number of disillusioned thinkers. He seems to have given some attention to writers like Sismondi, but the ideas of the 19th-century socialists seem to have been entirely lost in his enthusiasm for the capitalistic transition. Marx's writings had at that time come to be widely read, and at least there were Henry George and the Fabians whose denunciation of unrestrained capitalism ought to have had some influence on him.

The reason that explains the failure of Ranade to realise the inevitable effects of industrial capitalism is to be found in the same fact that blinded Smith in 1776 and List as late as 1841 to these evils. The eyes of both Smith and List were dazzled by the first fruits of new industrialism, and they both agreed in expecting that the capitalistic transition would bring a millennium for all. This capitalistic transition was as great a revolution as any revolution could be; and it was natural that the philosophers of this revolution would expect more from it than would appear warrantable to one who studies in retrospect. It is this that explains why Smith and the English Classicals of the 19th century were not influenced by any consideration about justice between classes, or why List was uninfluenced by Sismondi's *Nouveaux Principes*, published in 1819, or by Proudhon's *Qu'est ce que la Propriété*, which appeared

[6] *Essays*, p. 313.

[7] *Essays*, p. 309.

at about the same time as the *National System of Political Economy*.

It is the same enthusiasm about the expected benefits of the industrial revolution that dazzled the eyes of Ranade and made him blind to the repercussions that might follow. In a world lit by a brilliant sunlight he could not discern any black specks or spots. He believed in industrial capitalism with the passion of a pioneer, the zeal of a reformer and the emotion of an Indian. And this made him regard all criticism of the new industrial system as mean attempts to ruin a good cause.

To him the only problem was the problem of development, and this development in itself appeared so desirable to him that he did not consider it worth while to take the possible evils into consideration. He completely brushed aside all pessimism and tried to create a public opinion and induce a state-policy that would make industrialisation possible. It is noteworthy that in his enthusiasm for industrial development he allowed many of the vital economic questions of his time to escape his notice. He was writing at a time when the silver situation had come to a climax and the Government was looking for heroic means for saving the rupee from depreciating further. Ranade was not apparently much interested in these currency problems—nor in the problems of banking and of public finance. Schemes for a central bank for India had been coming off and on throughout the second half of the last century, but Ranade seems to have been oblivious of all this. In course of the two decades preceding the writing of his *Essays* the financial arrangements between the Centre and the provinces had been entirely remodelled, but these could not rouse Ranade's interest. The first Factory Act had been passed in 1881 and the second a decade later; the Land Improvement Loans Act had come in 1883 and the Agriculturists' Loans Act in 1884; the new guarantee system in respect of railway construction had been adopted in 1879; in 1886, a general income tax had replaced the license tax of 1877-78; all these raised important problems, but they could not get a place in Ranade's scheme of things.

To Ranade, all these would not matter at all, if only

nature's power could be harnessed to produce more and more wealth, if skill was given opportunity to triumph over ignorance, if people could be shifted from rural occupations to urban occupations, if colonies could be established abroad for Indians and if markets were found outside for the products of India's new industries. His entire enthusiasm was directed towards extolling the industrial revolution of India, and he could not spare any share of this enthusiasm for any problem that did not appear to him to be directly connected with a speedy development of industries.

Ranade's place in the history of Indian economic thought cannot therefore be properly evaluated unless we are careful to remember that he was as much a 'representative of nascent industrial capitalism' in India as was, for example, Friedrich List in Germany. It is this that explains the strength of the conviction that led him to chalk out boldly a Mercantilist programme when the twentieth century was drawing near and when nobody had heard of *autarky*. And it is this that explains the weakness inherent in his optimism about the effects of industrialisation on the capitalistic model and his failure to realise much that should perhaps have been possible for him to realise.

This is, however, not to deny that Ranade still remains the Classic among the economists of the special problems of India. It is a standing testimony to his writings that even half a century after he had written, no work on Indian economics can be regarded as complete unless it takes account of what he wrote. He may have failed to study the internal problems of industrialisation; he may have failed to bring the industrial problems of his country in line with the financial, banking and monetary problems; and, lastly, he may have allowed his enthusiasm for reforms to make him more than justifiably optimistic. But yet we can say much the same thing of Ranade as has recently been said by Schumpeter in evaluating Marshall fifty years after the publication of his *Principles*:[8] he may have been inadequate, but he gave a synthetic body of ideas, consistent with

[8] Schumpeter, Marshall's Principles, *American Economic Review*, June, 1941.

one another, he gave a well-defined line of approach, and he left suggestions that are even today capable of being worked up to yield very valuable conclusions.

SUMMARY

An attempt has been made in this paper to analyse the ideological and objective forces that shaped Ranade's economics. It has been shown that, on the objective side, Ranade was influenced by the results of active state policy in European countries in general and in Germany in particular. On the ideological side, Ranade's main indebtedness was to the Mercantilists and to the German economists of the Historical School. It has been sought to be proved that Ranade was as much an economist of nascent industrial capitalism in India as Friedrich List was in Germany and that though one advocated active state direction and the other a protective tariff, their economic policies were shaped by almost similar forces. And, lastly, it has been shown that the position of Ranade as an economist of infant industrialism explains all the characteristic features of his economic thought—his emphasis on policies rather than on principles, his economic nationalism of the mercantilist brand, his advocacy of state-paternalism, the eclecticism of his economic model, his failure to understand the undesirable consequences that might follow industrialisation on a capitalistic basis and his inability to appreciate socialistic ideas.

A CRITIQUE OF "INDIAN ECONOMICS"

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I

Fifty years have passed since Ranade delivered his memorable lecture on "Indian Political Economy." During this period various eminent writers have built up a large body of thought which has been conventionally called "Indian Economics." This term, perhaps first used by Ranade,[1] should strictly speaking mean "Economic theory developed in India," just as we use the terms German Economics, or British Economics and so on. Long usage has, however, conferred upon the term quite a different connotation. It has come to mean "an analysis of Indian economic conditions and problems." It is rather late in the day to quarrel with this latter connotation, though if a quarrel is raked up, the defenders of the conventional term will have a hard time of it. This issue, however, is irrelevant to the present task, wheih is to criticise the nature and content of "Indian Economics" as developed during the last few decades. For the purpose of this critique, the content of Indian Economic Thought may be divided into two categories: (1) Descriptive analysis of the Indian Economy. (2) The formulation of Indian Economic Policy.

II

The function of descriptive economics is to present the basic facts of the Economic Process so as to discover the interrelations of its various parts, and then to formulate

[1] "The same teachers and statesmen, who warn us against certain tendencies in our political aspirations, forget this salutary caution when the question at issue is one of Indian Economics." (Lecture on Indian Political Economy, p. 2.)

the dynamic laws of their development. It is clear that much of our current Indian Economic Thought is devoted to this work of descriptive analysis. We have, thus, a fairly large volume of information regarding the various aspects of our economic life. Yet, a critical student might find the following shortcomings in this field.

(1) The study of facts has not been as comprehensive and as detailed as one could wish. For instance, data bearing on the most vital problem of our economy—unemployment—are almost non-existent. We have not even the roughest idea of the distribution of income and property. There is not a single Indian economist worth his salt who does not complain about this lack of factual data; and yet it is not very comfortable to contemplate that only a few of those who complain have set about collection of data. It is true that in a vast country like ours, any comprehensive collection of facts must depend upon official effort. This has been accomplished in certain fields by special Committees or Commissions, but normally, the Government confines its statistical work to those fields where data can be collected in the ordinary course of administrative routine. But obviously such efforts cannot suffice for detailed description of the Economic Process.

(2) Another shortcoming is in respect of economic methodology. The function of descriptive economics—that of presenting a true picture of the Economic Process—; is vitally dependent upon scientific methods of analysis. Such methods, however, have not been rigorously applied to all problems of Indian Economics. For instance, we still analyse the population problems in terms of all-India averages, in spite of the immense "dispersions" in regard to regional rates of population growth. The basic concept of statistical method, that an average loses its significance, that it ceases to "typify" a collection of facts, if the items averaged show a large dispersion, is lost sight of by many. Another field where lack of scientific method is apparent is Taxation. Here, Indian economists have not evolved any satisfactory analysis of incidence, in spite of its intimate bearing on practical policy. In our country, it is, of course, quite impossible to discuss the problem of incidence

of taxation according to income groups. But it should be possible to analyse the problem of tax burden according to productive classes, and regions. Here, however, a worker feels the absence of agreed methods of analysis.

III

The second function of Indian Economics has been the formulation of Economic Policy. In this matter every one recognises the lead given by Ranade. In his Deccan College lecture of 1892, Ranade stressed the assumptive character of the maxims of Political Economy as developed in the West, and pointed out their inapplicability to Indian conditions which differed materially from those assumed by economic theory. The essence of Ranade's plea, like that of List, was that Economic Policy ought to be based upon the considerations of time and place, that it should be conditioned by the special environment,—political, social, legal and economic—of every country. It is this attitude, and not any specific doctrine, which constitutes Ranade's signal contribution to our national life. This attitude is the foundation of "Indian Economics."

Such an attitude has been developed by a long time of distinguished economists like Dutt, Wacha, Kale, Shah, and others. Yet in spite of this healthy attitude one feels that the Indian Economists have sometimes shirked the problem of defining the basic postulates of Indian Economic Policy. Thus, there is no agreed definition regarding the ultimate goal of our economic organization. Do we want industrialisation on the lines of England and America? Or do we want a rural civilization based upon village self-sufficiency, eschewing large-scale production, machinery, and the corresponding economic and social structure? Or, again, shall we follow the lines of Soviet Russia? These are basic questions, and unless they are definitely solved, our economic policy is bound to lack direction and purpose. Again, consider the problem of Land Policy. One feels that the essential question whether we want our land policy and legislation to lead to the discouragement of landlordism, and to the preservation of small-scale peasant proprietorship,

has not been satisfactorily solved. For lack of clear-cut formulation of policy in this regard, much of our recent rural legislation appears aimless. Further, take the question of Indian Protectionism. It is obvious that our case for protection rests on two main considerations: increasing employment, and preserving economic stability against foreign disturbing influences. The latter clearly involves measures in the direction of self-sufficiency. But while many are critical of "Discriminating Protection," few have taken upon themselves the task of reformulating the principles of Indian Protectionism in terms of these two considerations.

SUMMARY

The paper examines critically the two trends of Indian economic thought since Ranade's lecture on "Indian Political Economy." The first trend is that of descriptive economics, in which certain gaps of facts and analytical method are discovered. As regards the second trend, that of Indian economic Policy, the foundation laid down by Ranade is recognised. But in the subsequent development of thought on the subject, a lack of basic postulates of Policy is regretfully recorded. This omission is exhibited in respect of such questions as economic organization, land legislation, and protectionism.

THE QUALITY[1] AND PERSPECTIVE OF INDIAN ECONOMIC THOUGHT

BY

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"This meeting is not, I think, a fit occasion for a technical discussion, rather for something garrulous and discursive."[2] Pigou's Presidential Address at The Royal Economic Society, 1939.

It would be a sacrilege to say anything, on the occasion of the Ranade Centenary, that would belittle the importance of *the great master, who initiated us into economic studies.* Yet it is always "good for one's health and morals" to do a little of stock-taking and a little more of self-introspection. We were greatly offended, when Sir James Grigg characterised the Indian economists as school-masters.[3] I remember, I had the temerity to say that the Finance-Membership of Sir James Grigg, who in the twentieth century swore by the doctrines of Adam Smith, was "a first class tragedy in the Economic History of this country."[4] Yet it is entirely good for ourselves to examine the quality of Indian economic thought in this country. *Truth is a powerful tonic for thinkers*, specially for those, who, like us, are professionally engaged in the analysis of social processes.

What is our contribution to Economics? Our contribution to pure economic thought is practically nil; and our

[1] I had, on first thought, put the title of this paper as, " The *Poverty* of Indian Economic Thought."

[2] *The Economic Journal*, June 1939, p. 215.

[3] See the discussion in the Central Legislative Assembly on the appointment of Dr. Gregory as The Economic Adviser to The Government of India.

[4] *The Sind Observer.*

contribution to the analysis and solution of Indian economic problems is, if we count the pages written, enormous; but if we dwell on its quality, it gives *a taste as of some stale stuff*. We are able précis writers, brilliant economic historians, assiduous investigators, brave and intelligent guess-makers; but when it comes to arguing by first principles, we lack that "apparatus of the mind,"[5] that makes the economist; we have not yet developed that "technique of analysis,"[5] without which all thinking on social problems is unfruitful.

What are the causes of this deplorable state of our profession in this country? It was Dean Inge, who said that "Literature is half a trade and half an art." It may be said of Economics that it is "half a trade and half a science." The trading part of our business is indeed a unique tragedy. Not only our wares do not sell (that is not our chief complaint) but there is no one (in authority) prepared to listen to us. We argue in a vaccum. We lecture, as it were, to empty benches. The economic policy of this country (I mean, of the Government of India) is a "set" policy. We have no say in it. Not only the Indian economic conditions, but the views of the Indian economists are totally ignored. After all, "the appetite grows by what it feeds on." When *our "thought" has no unfluence on "things,"* we experience a deadening feeling of frustration that kills all thought in the bud.

But we, too, are at fault. The complaint of nationalist India against the professional economists of this country, that they know neither India nor economics, might be an exaggeration, but it is the "exaggeration of a vital truth." We are bound up to the chariot-wheel of "English" economics. The sources of our inspiration are "foreign"; they are not "native" to the soil. Our thought grows deductively, not inductively. That is why none of us has yet written any book on economics with illustrations from Indian economic life, as integral part of the text. The books in the market are a patch-work, the Indian illustrations "hanging on loosely in the air" in and about the general principles.

[5] Keynes' Introduction to *Cambridge Economic Handbooks*.

This brings us to Ranade's warning, written in a style, almost Shakespearian,[6] that economics is not applicable to this country. We have moved away a good deal from the position taken by Ranade. We have been at pains to prove (and it gives us a mysterious and subtle delight) that India is fast approaching a position, when the general principles of economics would be applicable to it in all their unique fineness. In all this, we have failed to grasp the profound influence of native customs and institutions that make all the qualitative difference in the working out of economic principles. Not even the most determined behaviourist could deny an important place to institutional influence in the making of human motivation, upon which we base our universal science of economics. Our chief fault is that we have ignored the warning of Ranade; we have been working at economic problems, regardless of their "social setting." Some of us have rather tried to ridicule Ranade's attack on the universal applicability of economics.

The tragedy is that we are not prepared to listen to Ranades or Dadabhai Naorojis; but if Keynes tells us that classical economists are like Euclidean geometers in a non-euclidean world[7] and that their economics is applicable to a condition only of full employment,[7] (and our condition does not even remotely approximate to full employment) we listen with rapt attention. We argue for free trade, but we are prepared to support protection, only if Pigou tells us that it is a sound economic policy for an agricultural country. When the world abroad is engaged in economic planning, we, too, begin to talk about it (though our performances in that direction cannot, in the very nature of the case, be anything more than mere mathematical jugglery).

We can grow, only if we develop inner strength. I am not arguing that we throw overboard the entire structure of Political Economy, as it has come to us from the West. It

[6] "You might as well talk of the tendency of mountains to be washed away into the sea, or of the valleys to fill up, or the sun to get cold . . ."

[7] Keynes' *General Theory of Employment, Interest and Money.*

is too precious for such a treatment. *Western economic thought is too profound and subtle to deserve being jettisoned* in so summary a manner. But we must bear in mind the process of its growth. English thought was mercantilist (protectionist) when mercantilism suited English economic conditions. It veered round strongly towards *laissez-faire,* when that became the necessary condition of English prosperity. There is now a distinct trend away from *laissez-faire,* because it no longer suits them in its entirety. So *Englishman's needs become his Economics (and his Economics soon become his Ethics*). Hence there is all the danger, when we adopt his Economics without the aid of that "trained common-sense,"[8] which alone enables the economist to separate the grain from the chaff. It is, therefore, that when we hear an economist speaking on "What is wrong with Indian Economic Life?" a couter-question does suggest itself, "*What is wrong with Indian economists?*"

The wrong with Indian economists is that they do not know their country. You read any book on Indian Economics (fiscal policy, population, banking, public finance, rural finance, etc.,), you plod through pages of economic history before you arrive at the facts; and the facts are not "directly felt facts" but a mass (or rather a "*mess*") of them, gathered by *officials, whose India is first-class air-conditioned coaches and isolated dock bungalows.* I here make an exception of Mr. Darling of the Punjab. His books are *the only genuine books on Indian Economics.* You feel a beautiful sensation of "refreshing" freshness. The reader experiences a powerful feeling that he knows the country and we don't. *Our India is the n'th carbon copy of other people's second-hand experiences.* Darling's India is real India: "*The old India-melodious, plaintive, prodigal, prickly, above all warm-hearted.*"[9]

The trouble with us is that we have ignored the problems of this real India. We occupy ourselves with those problems, which the English economists choose to take

[8] Marshall, *The Principles.*

[9] M. L. Darling, *Wisdom and Waste in the Punjab Village,* p. 33. (Italics mine.)

up for their analysis. If they talk of production, we, too, talk about it. If they begin talking of employment, we follow. We think of our population problems in Malthusian or Neo-malthusian light. If they attach extraordinary importance to international trade, we follow; though international trade might be a small fraction of the total trade of this country. If they give little place to socialism in their economic circles, we give it a short shrift.

Our "divorce from reality" may well be illustrated by our strong advocacy of *industrialisation, as the sole cure of our diseased economy.* By this time, we are all convinced that industrialisation will not create conditions of full employment. *More production does not mean more employment.* I do not mean to underrate the importance of production in economic life; but, *in human welfare, employment is of infinitely greater importance than production.* We must, of course, raise our standards of living by greater production; but *we shall have greatly increased the sum of human happiness in this country, if we have more employment even without more production.* This is Gandhi's standpoint. And those of the Indian economists, who jeer at his economic remedies and condemn his advocacy of a handicraft economy as adrift towards medievalism, might well remember that he knows the country and we don't. We have plenty of labour and little of capital.[10] According to our economic principles, we should make an economical use of our scarce resources. Any "economic" solution of our problems must be based on a greater use of labour than capital. Incidentally, it may be said that Gandhi's solution is a comprehensive one, which includes the simultaneous solution of our population problem. Those Doctors of Econmics, who are terrorised by the Malthusian Devil and propose Neo-malthusian remedies might with great profit reflect on Mr. Gandhi's economic doctrines, even if they are deterred by his utopian puritanism on sex problems; though one is tempted to say that *it is really Neo-malthusianism, which in the light of the facts of life in this country, is*

[10] Prof. J. C. Kummarappa, quoted in "Horizontal v. Vertical" by M. K. Gandhi, *Harijan*, Nov. 18, 1939, p. 346.

utopianism. But my main contention here is, that it is wrong to conceive of the population problem as a mere production problem. I do not mean to say that it is not; it surely is; but it is much more of an employment than a production problem; and here *Mr. Gandhi is to me a greater economist than all the Indian economists bundled together*; and there is this important difference that the professional doctors, the economists, know their science, but they *prescribe the drug without examining the patient.* Mr. Gandhi knows the patient allright. His remedies are, therefore, likely to prove more efficacious than ours. Our knowledge, divorced from reality, is more likely to kill the patient than to save him.

The sense of unreality in the work of the Indian economists was obvious in the very learned discussion on Isolation versus Insulation that took place at the last session of the Economic Conference. One experienced "a feeling akin to irritation" at the dramatic playing to the gallery. The Doctors were discussing *the relative efficacy of drugs to be administered to a dead patient.* The moral is clear that *the economic resurrection of this land is not possible by orthodox remedies.* You might condemn isolation as totalitarianism, as identical with Nazism or Bolshevism. Whatever one's political differences with either or both, is there any doubt about the economic recovery of Germany from the tragic collapse of the post-war period; or the considerable head-way that Soviet Russia has made, since the October Revolution? If, for a moment, we detach ourselves from our attachments to "English" economics, we shall realise that, considering the facts of the Indian situation, there is much to be said for the "isolationist" arguments. But the Indian economists would neither have Gandhi's "medieval" methods nor the ultra-modern ways of the progressive West, not knowing that soon a time is coming, when we shall have to choose between extinction and either of the two alternatives.

The trouble is that for the Indian economists, *Gandhism is medievalism, Nazism is terrorism and Communism, a subtle combination of both.* We are, of course, all agreed against Nazism, not because of the Defence of

India Act, but it goes against our grain. We hated it long before the British Government declared war on it. But if we are true social scientists, systems such as communism should not affect our nerves. We should be able to examine dispassionately "the economic virtues" of the Soviet system. I hold no brief for Soviet Communism, yet I believe that Indian economists would profit a good deal, if they were to make a comparison between the social and economic conditions of Czarist Russia and British India. I am not arguing for a socialist revolution, but for a true historical perspective. Read any description[11] of the social and economic conditions in Czarist Russia and you have only to substitute names to realize the exactness of the analogy. Once again, I must say, I am against a violent revolution. But our abhorrence of Soviet Politics should not prevent us from making a dispassionate study of Soviet Economics; and I believe we shall learn much and profit more by the study of the Economics of Soviet Communism.

This, however, does not mean that we should immediately plunge in for large-scale industrialisation. In fact, *without revolutionary adjustments in other respects, large-scale industrialisation will be a social disaster.* The Indian economists have advocated industrialisation on account of their seriously mistaken view of the socio-economic situation. Industrialisation will mean large-scale urbanisation, which is the same thing as large-scale de-ruralisation. This would be possible, if agriculture were only an economic activity. It is much more; it is a way of living;[12] consequently, when the economist puts Indian Agriculture into purely economic categories, the inferences from reasoning, based on such assumptions, possess no validity on account of the gross distortion of the

[11] Ogg (*The Governments of Europe*) describes Czarist Russia as "a babel of tongues and castes and creeds." Pre-soviet agriculture, with its ignorant and superstitious peasantry and uneconomic holdings, was exactly like Indian agriculture. In this connection, the excellent books of Maurice Hindus, *The Red Bread*, etc., are worth a study.

[12] See Mr. Manu Subedar, *Minority Report*, Indian Central Banking Inquiry Committee.

social perspective. It is, on this account, that a correct reading of the socio-economic situation has led thinkers like Mr. Gandhi to the advocacy of a handicraft economy; for immediate industrialisation will bring a social disaster in its train; but, here, probably, I am moving too far away from fellow-economists.

I have, probably, over-emphasised my differences with fellow-economists. In order to make my point of view clear, I am taking, here, a few *samples* of Indian Economic Thought.

Dr. Gyanchand's "Teeming Millions" is *undoubtedly the best book in Indian economic literature.* But his able survey and abler reasoning leave us with no definite conclusions except his determined Neo-malthusianism. The reader feels like a spectator, who having witnessed a tragedy on the screen, walks out confused on to the streets into the world of reality.

We might take another excellent book: Sir M. Visvesvarya's "Planned Economy for India." Not many in this country can be compared to the great author in point of administrative talent, enterprise and patriotism; and, above all, what is relevant for our purpose, his correct appraisal of the economic situation in this country. But when it comes to translating aspirations into figures, it is simply mathematical gymnastics. It is good as an ideal. We must hitch our waggon to the star, if we want to reach the top of the tree. But as an economist, I would seriously question, not the attainability of the standards, but (what to me is a more serious blunder) the mutual compatibility of the increases in production and employment. The fun of it is that Visvesvarya has had several *imitators, who have, by clever variations, produced bigger rats out of smaller hats.*

I may here, for want of space, pass on over a good deal of good literature to the excellent estimates of Dr. Rao of the income levels of this country. The really relevant figures are to be found in the Kummarappa Committee's Report on the Industrial Survey of the Central Provinces. The remarks of Mr. Gandhi on the income figures are highly interesting: "The survey of 606 villages revealed to the Committee *the painful fact that the average income of the*

villager per head was no more than Rs. 12. This need not startle *the armchair scientist who relies for his figures on books* and who has been taught to believe that it is anything between Rs. 65 to Rs. 80. Both are right from their own standpoints and data. The figure of 65 to 80 is an all-India average which includes the income of millionaires, middlemen and zamindars. The figure has a purpose of its own. But for the Kummarappa Committee the figure 65 would be wholly false. *The figure 12 is accurate and truly scientific.*"[13] Dr. Rao's figures have their own interest and meaning, but they cannot be the basis of an economic policy; and any statesman, relying on these figures, would be just like the captain of a ship, who having read the average ocean-depth from some Geography book, leads his boat to disaster in mid-ocean.

Leaving aside books, I may now illustrate my views on Indian economists by taking a problem of public policy: Prohibition. *In this respect the Indian economist does not look beyond the tip of his nose.* A social problem is conceived of as a purely economic problem; and having isolated the purely economic issues from their moral and social setting, the Indian economist does not proceed to tackle Prohibition even as an economic issue, but as a purely financial problem. Some economists take shelter behind Robbins that *we are not concerned with ends but with means. Apart from this being bad philosophy, it is, at least, in this respect, bad economics.* Prohibition would obviously affect the efficiency of labour and consequently, production and wages. It would also considerably affect the demand-schedules of non-alcoholic "wage-goods;" and consequently, their prices and production. Yet the economist would refuse to look beyond "money" into the heart of the "real" situation.

Indeed, *the heart of real India is a closed book to the Indian economists.* They have the eyes of knowledge, but have not the insight which alone unfolds the real nature of

[13] An Original Report (by M. K. Gandhi), *Harijan*, July 15, 1939, p. 201. (Italics mine.)

things. The future, therefore, is not bright. It is, indeed, rendered dark by the political prospects of this country. Even if we grow wiser, it is not likely that the Government[14] of this country will ever listen to us. "*The hope that an advance in knowledge will affect actual happenings is, I fear, a slender one.*" (Pigou)[15] It is more slender in our country than in Pigou's. "None the less by a sort of reflex activity, we cultivate our garden. For we also follow, not thought, but an impulse—*the impulse to inquire—which, futile though it may be, is at least not ignoble.*"[15]

SUMMARY

It is necessary for the Indian economists to do a little of stock-taking. The quantity of our work is enormous, but its quality is not up to much. This state of affairs is due to the Government's indifference to us and our indifference to our own country. We have worked at our economic problems regardless of their social setting. We have ignored Ranade's warning about the inapplicability of classical economics to this country on account of its peculiar customs and institutions. We should detach ourselves from our attachment to "English" economics.

The Indian economists' "divorce from reality" is illustrated by their advocacy of industrialisation as the sole cure of our diseased economy. Really the economic resurrection of this land is not possible by orthodox remedies. In this respect, the Indian economists might be well advised to make a dispassionate, scientific study of sovietism and Gandhi's handicraft economy.

[14] Assuming, as it is most likely, that there will be no fundamental change in the constitutional system of this country for a pretty long time. We have been told too long that Dominion Status is coming but it never comes.

[15] *The Economic Journal*, June 1939, p. 221. (Italics mine.)

TYPOLOGY OF CONTRASTED ECONOMIC SYSTEMS: A CLUE TO THE METHODS OF ANALYSIS OF INDIAN ECONOMIC CONDITIONS

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Ideal Types, Capitalism and Communalism.

Each economic system is related to a given set of institutions, to a peculiar configuration of culture which organise the patterns of economic activity and relations. Social institutions and customs, law and public opinion govern the incentives of labour, conventions of competition and co-operation, property and contract, which specifically define the use and acquisition of scarce means, and of other individuals as means in an economic system. It is thus the theory of institutions which can show us the mechanism of economic forces, of the relations between means and ends in an economic system. It is essential that human ecology, social anthropology, history and sociology should help economics in defining particular economic systems and their dominant motives and persistent conditions, the outcome of the cumulative force of institutions, traditions and environment.

Max Weber in his historical and sociological writings has successfully utilised "ideal types" for concrete investigations of complex social data. Weber's *Ideal Typus* is a special instrument of analysis which gives the clue to understanding a cultural phenomenon described as 'the historical individual'; it is a "fiction" in Vaihinger's sense and is thus different from a hypothesis. It furnishes a point of reference with regard to which the actual motives or conditions of the concrete cultural situations are analysed, interpreted and judged. A most significant illustration is Weber's formulation of the ideal construct of modern

capitalism, which has helped him in analysing cultural, social and economic relations for interpreting the transformation of European Society, worked by the Industrial Revolution. In contrast with Weber's ideal construct of modern capitalism may be set communalism as the ideal construct of the economic organisation in the East, based upon the village community, handicraft, caste and guild structure now facing the disintegrating forces of modern capitalism.

The Evolution of the Village in India and in the West.

Rural history in the East is far different from that in the West. In Europe the village was over-shadowed by the imperial system and feudalism, which obscured the ancient communalism, suppressed the rights of the villagers in the common lands, disintegrated village solidarity, and absorbed most of the profits of agriculture so that the peasantry were debased. In India and, generally speaking, in the East, the village communalism has been far more widespread and the common pasture, the rights of grazing and cutting fuel, the holdings lying not in contiguous blocks but in scattered strips so as to profit from different soil and climatic conditions, the collective management of irrigation, communal employment of village artisans, servants and functionaries, the maintenance of a collective village fund and its expenditure on village temples, schools, tanks, irrigation channels etc., all these still testify to the persistence of ancient and essential co-operative traditions unknown to the Western villager. The distribution of strips of land from each soil block of the rural settlement equalises opportunities in agriculture and irrigation among the various peasant families; while the maintenance of unappropriated woods, meadows and pastures, out of which holdings can be created as the rural population multiplies prevents the rise of a considerable land-less class. Both the open and scattered field system and common rights in woods, pastures and irrigation channels have been bulwarks of village solidarity and peasant proprietorship. The early English administrators, born and bread in the individualistic traditions of Bentham and Ricardo, treated these as tribal-communal relics of the medieval past. Both land-settlement and local government

tended to obliterate that careful adjustment of rights in land between the different classes and that efficient local co-operative service, which the Indian village community has evolved through the centuries in response to the agricultural needs and social instincts of the people. Indeed, the disuse of village law and custom as regards communal control of pastures, tanks and irrigation channels, or the management of common village funds and functionaries have in recent years contributed in no small measure to the decline of agriculture in the country. Many reparative measures now have been undertaken by the government in different provinces to check the breakdown of the village communities, rural services and agricultural customs. Such, for instance, are the Punjab Land Alienation and Pre-emption Acts, the Madras Acts for the rehabilitation of co-operative irrigation and village services and the various village Panchayat Acts, which have for their purpose the revival of village organisation and peasant solidarity.

Nor has the system of organisation of handicrafts in castes or guilds lost its vitality and adaptability even in spite of the inroads of modern industry. There have been developed a good deal of division of labour, specialisation of occupations and localisation in the Indian communal organisation of industry. In the organisation of arts and handicrafts, different grades of work are allotted to different classes of labour, and sometimes industrial villages, composed of settlements of artisans and labourers, specialise themselves in particular industries and manufactures. The prevailing ideas about the isolation and stagnation of the Indian village system are due to the application of the logic of the Western economist to Indian economic conditions. In Western Europe till the Industrial Revolution villages were more or less isolated and had to supply their own wants, because communications were not sufficiently developed. In India, though the village has been self-sufficient so far as food stuffs and the necessaries of life are concerned, it has imported all the luxuries it wanted from outside, as it is doing even now. The products of the cottages and workshops of some industrial villages have been well known throughout India, and before the days of steam power, were

exported to China and the Far East, as well as the ports of the Red Sea and the Mediterranean.

Group Organisation as a Form of Functionalism.

In India the self-directed village communities and industrial guilds still prevail, but the village collectivism and guild structure which are still vital could not strengthen themselves by combination and federation for economic as distinguished from social purposes. For future reconstruction the ideals and structure of co-operative production and guild-socialism as in Great Britain, of corporative economy and the transformation of guilds into cooperatives as in Italy, and self-government in small units of industry and collective farming as in Russia demand serious consideration in this connection as being more adaptive than the type and organisation of capitalistic industry. The settled habits of the population, the instincts of attachment to the home and the soil, the traditions of mutual help and neighbourly offices which naturally spring up in the village commune, have developed into a rich constructive communalism in a deeply socialised and humanised life and have determined the specific type of economic organisation. The prosperity and political power of cities and towns never have been able to eclipse the self-government of villages, clans, castes or brotherhoods, the foundations of Indian polity, and the self-direction of agriculture and industry in village communities, and industrial guilds, the foundations of Indian economics.

Alfred Marshall in discussing the industrial dominance of the Western nations, has pointed out how physical features and social history have determined the type of leadership obtained by each of the countries in Europe. The physical features of France, for instance, have not favoured industrial concentration; and, with the early suppression of the middle class, French industry mainly was given to cheap local products, on the one hand, and, on the other, to find goods embodying some artistic feeling and individual judgment. France, which owes relatively little to the aid of mechanical power in manufactures, affords the chief instance of a leadership based on individual skill and individual judgment, and sets an example to Eastern countries, not merely in her most

successful cooperative undertakings, but also in her special superiority in delicate industries. If variations in industrial evolution are true of Europe, which has exhibited on the whole a unity of civilisation and similarity of social institutions among each nation, in Asia, where the industrial and social structure is so different, the types of industrial structure and organisation would depart materially from the large production of the nineteenth century in Europe or the new massive production of the United States. In the communal societies of East Asia natural associations and alliances of village communities, guilds and brotherhoods grew into a system, instead of the grouping for mutual protection of men and large estates, which has supplied the framework of the European economic and social organisation. Chinese land always has been cut up into small holdings divided among all the sons of the family. They are chiefly freeholds and cultivated intensively. There are no great permanent estates as in the Western World. In China, Japan and India the system of peasant proprietorship has combined with the economic solidarity of the family to keep alive cottage and village industries, which also have developed a system of travelling brokers and middlemen, who make their products accessible to the markets. The patronage of the temple, monastery and court has been the steady support of artistic industries even in the country districts; and the Eastern peoples, particularly the Japanese, who have a rich endowment of the artistic instinct and delicate sensitiveness, have applied common and skilled labour to delicate metal, wood and textile work in a way unknown to popular art and craftsmanship in the West. In India it is the hereditary and caste tradition which has contributed to maintain high excellence in artistic handicrafts. Everywhere it is the guild which has laid down regulations in the interests of the particular craft or industry, and it is the sense of social cooperation, developed in the compact life of the village community or clan and family village, which has prevented the industrial guilds from warring with one another or conflicting with the interests of the consumers as they did in the medieval West. In the East, a strong and rich middle-class has existed in the cities only, where the workshop system has developed out of a

more specialised organisation of the handicrafts, producing common goods for a wider market. In Japan, the communal bond has been very much weakened by the old feudal system and by the new centralisation, an outcome of the impact with Western powers, which has compelled her to accept militarism and industrialism, however uncongenial they may have been to the temper of the people. But in China and India, whether in the more or less autonomous villages or the self-governed industrial and commercial guilds and associations, communal habits and traditions are very much alive as potent forces of economic renewal. The phenomenal success of the cooperative movement within a decade or two in India, and of the great mercantile guilds in China in organising her commercial credit may be quoted as instances of the strength of their old and essential communalism.

Group Organisation as a Form of Regionalism.

Neither villages nor castes in India have been local organisations: nor does caste weave the whole and complex web of Indian life. There are distinctly effective neighbourhood bodies or *Panchayats*, where several castes are represented as well as active caste *Panchayats* and guilds, which include the whole brotherhood inhabiting a group of villages and extending beyond the districts or merely a few selected sub-castes. There are thus many threads of social cohesion and often these cross one another. The tendency always is for the local, occupational and functional bodies to seek strength by combination and federation. Assemblies of five, ten and twenty-five villages unite in a loose organisation and deal with all kinds of matters agricultural, economic and social, from common festivals and recreations to the excavation of a tank or the construction of an irrigation channel. Similarly, caste and guild bodies extend their jurisdiction over a whole culture region, a guild comprising different castes and a caste having sub-divided guilds. Outside the pale of the centralised administration and the capitalistic industrialism which has reared its head in a few cities, the influence of village councils and caste *panchayats* still governs social and economic relations. Local and occupational groups, based on the contrasted principles of

neighbourhood and occupation, both grow in extending circles of authority, which sometimes intersect, and there are instances where there is a striking adaptation to the larger needs of commerce and centralisation. A greater admixture of higher castes implies the relative strength of the village councils; such caste or sub-caste has its own separate *panchayat*, and there is a general caste *panchayat* with controlling or appellate jurisdiction over their decisions; castes and guilds have their collective capital which is in full sense a social asset; thus directly and indirectly they influence the interests and ideals at work in that district; the ramifications of caste and guild organisation often extend throughout the whole region in a system of industrial management in concentric circles binding together men of similar vocation. There is an interlacing of village and caste or guild institutions and functions in Indian society which emphasises social ends, and prevents the crystallisation of class feelings and interests. On the other hand, in this system the isolation and segregation of castes are compatible with a great deal of life in common and with active participation in village councils in the particular region. There, no doubt, have been abuses, but it is nevertheless true that the general tendency has been to lift the village, caste or guild bias into a broader mentality, and to utilise the group spirit as far as possible to protect the rural population against exploitation.

Elements of Contrast between Capitalism and Communalism.

We may now indicate the main elements of contrast between modern capitalism and communalism as ideal constructs, remembering its practical methodological significance and that it is built by means of a one-sided emphasis and intensification of only some aspects of a concrete occurrence. The aim here is not to idealise, not, that is, to evaluate phenomena either positively or negatively, but rather to work out a type as it might be thought to have developed in free and undisturbed conditions. "Ideal types," observes Franz Oppenheimer, "are not instances of pure reality, since they are of course always transitions and external disturbances. Nevertheless they must be set up for reasons of thought-economy, so that the mass of phenomena may be

strained, so to speak, through a graduated sieve, thus making an orientation possible." Both the ideal types as well as differences between the actual social situations and their ideal-typical constructions will facilitate the understanding of the actual motives or conditions which have determined the existing situations in Europe and India.

Modern Capitalism (*Ideal typical construction*)	Communalism (*Ideal typical construction*)
1. The stress of contractual rational relationships based on the rights of the individual to the produce of his labour and to free exchange of the same for an equal value received in the context of the market.	1. The stress of face-to-face relationships and social rights and obligations based on the principles of a community of life and the responsibility of each for all in an organic-communal society.
2. In a regime of competition, the calculation of efforts and utilities becomes the standard, and organises all social groups and relations which fulfil instrumental values. Economic life tends to stand apart from, and sometimes even opposed to, the scheme of social and ethical obligations.	2. In a regime of custom, natural and ethical relationship satisfying certain vital interests and urges and fulfilling certain intrinsic values tends to be superimposed upon and to humanise economic relationships. Economic life is brought within the scope of social and ethical categories.
3. The system of distribution of wealth and services is individualistic. The whole social dividend is here shared among the individual producers with nothing reserved for the community, except so far as the state claims a part for purposes of regulation, and not as a co-owner and co-producer. Private property rights are accordingly emphasised against the community.	3. The system of distribution of wealth is communal. The community here takes an independent share of the dividend, being regarded as a co-owner and co-producer, for purposes of education, charity, and support of the higher personality-classes. Private property is owned and operated on communal rather than competitive principles.
An inequitable distribution of wealth and opportunities often withholds from the majority the very values which are sought.	A customary distribution checks free adaptation to new cultural needs, stultifying the very principles of proportioning reward to merit.

MODERN CAPITALISM

(*Ideal typical construction*)

4. The regime of competition tends to convert the economic sphere into a sphere of conflict of social groups which devote themselves exclusively to economic interests and functions, and crystallize themselves into economic classes. This leads to constant struggle and exploitation of the weaker groups by the stronger. Hence arises the necessity of interference of the state as an arbitrator of indusrial and social peace. There is a striking development of individual initiative but the economic freedom of a considerable section of the people cannot be achieved, nor do these adequately share in the wealth and happiness created in the community, and on the whole, there is social inefficiency due to chronic class friction.

COMMUNALISM

(*Ideal typical construction*)

4. A regime of status tends to degenerate into an authoritative regime of rigid and inelastic social groups and arbitrarily fixed social and personal relationships. This leads to the loss of individual initiative, on the one hand, and social stagnation, on the other. In communities dominated by status, groups unite not on the basis of economic interests but of similarity of mode of living, religion and culture, and there is less of social cleavage which in its origin is not economic. Not economic classes but cultural groups rigidly control economic as well as social functions and interests, embracing the occupation, standard of living, religion and social manners of individuals. The economic competition between individuals is regulated in a twofold manner.

(*a*) Custom determines both the vocation of individuals as well as their standard of social living, and social control is attained by voluntary traditions of group planning and cooperation in place of the imperfect control of the price system. Custom ensures a living wage and controls the profit motive by rewarding special skill or excellence in work with social recognition and improvement of social status. The formation of new social groupings often corresponds with an upward economic movement and consequent social

Modern Capitalism (*Ideal typical construction*)	Communalism (*Ideal typical construction*)
	differentiation. As agricultural and artisan groups rise in the economic scale, in every step in the rise there is a ramification of social classes or castes into groups, marking an ascent in the social ladder. (*b*) Caste and guild regulations are rigorously observed. Out of the crystallized agreements an ethical standard, an element of public opinion comes, which rises into a principle which society cannot oppose. Castes and guilds lay down strict rules of industry and trade, and exercise to a limited extent the functions of a trade-union, a credit and benefit society, an accident or insurance association. These restrict unfair competition between individuals, insure good work and prevent the degradation of wages and the workingman's standard of living.
5. An industrial society based on competition tends to develop towards the regulation of contractual relationships in the interests of justice, freedom and equality, thereby placing competition on a more worthy and more humane plane. The aim of collectivism has been to equalise opportunities with regard to control and management of industry, while a fairer distribution of the national dividend through a more equitable system of taxation and regulation of wages and individual expenditure by	5. The progress of an industrial community based on status lies towards the development of contractual relationships in certain spheres of group life. This is the progress from status to contract, which according to Maine, holds the key to social progress. But this need not imply a complete disintegration of natural groupings and patterns of behaviour which maintain the economic solidarity and social peace of the community. In fact the economic progress will be found to lie in the conservation and

MODERN CAPITALISM (*Ideal typical construction*)	COMMUNALISM (*Ideal typical construction*)
public opinion contribute to restrain individual freedom and economic power and the play of the profit motive, and to provide a social milieu for the gaining of power through co-operative achievement and shared prosperity and happiness.	development of the vital forms of communal life and institutions in adaptation to the complex economic and social needs of today. Thus in the East there is greater chance of economic renewal through some form of group organisation, akin to guild socialism, corporative economy or functional government or rehabilitation of the voluntary traditions of social cooperation which have been the bedrock of rural and functional governments in the East.

The Rôle of Institutions in the Prevention of Conflict between Different Social Aims.

A new set of institutions and culture patterns representing different ethical standards is now conditioning different patterns of economic activity in Europe as well as in India and China. In the industrial society in Europe founded on freedom of contract and exchange, the system of property and distribution, which is a social and historic product, and the net-work of political systems and juridical rules, which have stood for the greatest personal profits of individuals at the minimum cost, are now systematically modified and overhauled in obedience to different ethical choice. Hard bargaining of free individuals and contractual relations have now come to be regulated in the interests of industry itself as well as of those of vital efficiency and well-being. Social services are established; sickness, old age and unemployment insurance stresses the liability of the employers. The state takes upon itself the responsibility for the nurture and education of children by means of family allowances and free medical care and schooling. There is also legislation requiring the use of safety devices in mines and factories; invalidating contracts, whereby the workmen release the

master from his statutory duty; limiting the hours of labour; regulation of leave and conditions of employment, housing and sanitation; and at last after much hesitation, the fixation of minimum wages and security of employment. England has established wages boards in "sweated industries," which fix wages paid to workers without limitation of age or sex. A decision of the U. S. Supreme Court has drawn a distinction between regulation of hours and regulation of wages. "There surely is none when liberty is viewed, not negatively or selfishly as a mere absence of restraint but positively and socially as an adjustment of restraints to the end of freedom of opportunity."[1] In most social legislation, a new ethical valuation is fundamental. A majority of social protective laws protect the weak from being forced into contracts injurious to their welfare, and place competition on a more worthy and more humane plane.

Wherever there is a process of disintegration of values which means the separation of the economic, the social and ideal phases from one another, social norms, moral scruples and religious beliefs have emerged, protecting the integrity and evolution of group life, which above everything else is essentially the creator of values. Herein lies the true significance of institutions which prevent the conflict between value planes. The latter if unchecked not merely threatens social solidarity but frustrates individual lives as well, through disintegrating the scale of preferences upon which the individual relies for guidance in society. What is good in the economic process and its outcome is the result of what is good in the ends of individuals and the economic institutions by which these are reconciled, and integrated with the ultimate values or partly socialized, or by which at least their actual conduct is partly socialized, the element of social purpose being embodied in these very economic institutions, and, finally, precisely in so far as the economic process is blind or automatic, and in that sense natural, in so far, in other words, as it is not guided by human foresight employed in the service of completely ethical ideals, in just so far does the economic process described by economic laws fall

[1] Cardozzo: *The Paradoxes of Legal Science*. pp. 117-18.

short of being the kind of social process that can result in the complete "harmony," that would really "maximize welfare."[2]

The Changing Contents of Institutions.

The theory of institutions is of course a division of synthetic sociology, and includes a study of the value attitudes of the community and means of social control, which regulate economic behaviour. Such a theory, however systematically it may list and classify the institutions, cannot give a complete explanation of group action. There is always a floating mass of social habits, values and standards which are not institutionalised. Thus institutions and standards of groups do not exhaust social behaviour, much in the same manner as the inventory of instincts and desires and of their combinations by the psychologist cannot explain fully individual behaviour. The theory must be dynamic, for institutions change constantly and with varying rates of speed. There is a constant pressure on man's institutional framework both from within and without. New evaluations and standards set up a re-orientation of institutions and the values these express, while conquests and culture contacts, industrial discoveries and social discords, famines and epidemics also warp and disorganise the patterns of human activity. A dynamic theory must recognise not merely the complexity but also the changing variety of institutions, and culture patterns, some tentative, others adaptive, some useful, others effete and harmful, some, again, lingering as vestigiary organs of the social body.

The theory of institutions will also be regional and anthropological. It will differ according to the region and the stage and type of economy, as, for instance, the village communal system, the feudal system, *laissez-faire* and capitalism, centralised and monopolistic industry and collectivist planning. Due to multilinear social evolution in diverse regions and zones both the theories of economic institutions and economic behaviour will vary. Variations

[2] Compare O. H. Taylor: Economics and the Idea of Natural Laws, *The Quarterly Journal of Economics*, Nov., 1929.

of economic and social types have great methodic significance for both economics and sociology as they represent the raw materials of uniformity of order and rules of motion which when compared and collated can establish universally valid principles. A strong bias in favour of regional, historical and institutional economics places the problem of value and prices in their proper setting.

On the other hand, when economic theory stresses the desires for economic goods and services as relative to social norms and ideal values, the way becomes open for profound disagreement, for intellectual analysis cannot bring about a conformity with regard to value attitudes. The centre of interest is, also, shifted from purely scientific interest to social policy, political control and economic planning. The outstanding contribution of Marxism to the social sciences is its conviction of the impossibility of divorcing thought from action. An economics existing independent of ethics and an ethics independent of economics are simply impossibilities. Karl Marx's *Das Capital* is, indeed, the first complete introduction to the theory of institutions, although, this represents a biased theory and biased planning. Marx observes, "Economists are strange creatures. For them feudal institutions are artificial, bourgeois institutions are natural. Thus there has been history in the past, but now history is finished." From a biased theory of institutions, however, he proceeded to create a new history for Europe.

Apart from the writings of the economists with a socialistic bent, the followers of the Classical School are extending the scope of equilibrium economics to include study of the conditions of work, welfare and unemployment, and discussing the criteria and means of reaching optimum production and population. The scope of price economics is broadening to comprehend the social-psychological conditions of market investment and finance. Similarly, the theory of distribution is no longer unmindful of the implications of the original allocation of income and implements of production; it links itself intimately with theories of public control and ownership of industries, of taxation and social insurance. From these and other fields, the search for reality in the institutional background and the setting of

wider social and cultural influences is coming to dominate methods of economic analysis. Thus there are fewer adherents today of a rigorously "scientific" treatment of economics after the Classical model, and the greater rapprochement of economics with political science and sociology more and more narrows the field of economic analysis, accustomed to disregard aims and norms and to consider only the economic transactions in the form of commodity statistics.

Its Rôle in the Evaluation of Different Economic Systems.

Yet the most important contribution that the theory of institutions can make towards economics is in further analysis of the psychological and social results of any given economic system, and hence in laying the basis of inductively reached evaluations. In its insistence upon opportunities being given for an outlet of the vital instincts, desires and urges, always struggling for expression, and arraying them on the side of progressive social activities, it offers a new solution to the problem of economic reform. Thus economics is not converted again into a 'dismal science' though the original equipment of human nature attracts renewed attention. With our new knowledge of educational methods and processes and the cultural value of institutions, attitudes and habits as reshaping man, and remoulding his values, the idea of social planning or purposive intelligent control over institutions comes to occupy the very centre of economic thinking. This is a change from the older, pure, non-evaluative economics to economics as a functional science, which must reach inductively scientific criteria of functional appropriateness of economic processes and institutions, or of the rôle played by traditions and attitudes making for cultural lag or mal-adjustment or their opposites.

Thus the rival schemes of industrial self-government socialism, syndicalism, communism or communalism have to be judged not only by the test of productive efficiency, but like all such human arrangements also by the criterion whether the balance struck between expression and repression in the economic institutions is the one best conducive to the development of personality and social harmony. Nor will

the human institutional adaptation be of a standardized pattern; for races and regions vary in the endowment of instincts and in their social inheritance, though the intercourse of economic ideals and education comes to modify habits and traditions. Further, given the accumulated force of institutions, traditions and environment, the economic problem may be solved not by resorting to socialism or communism as an ideal of social organisation but by a sort of compromise making industry work as humanely and equitably as possible under the modern conditions of production and scheme of distribution. The conceptions of property as a social trust, of ethical competition and of a moralised industrial world in which there are trust and mutual partnership of the factors of production, and especially social foresight and goodwill among entrepreneurs and industrial leaders, are all significant in modern economics as representing the victory of higher social and ethical ideals over subjective economic values. No doubt economics will, in these fields, obtain the most powerful aid from the theory of institutions and analysis of objective criteria of welfare adopted by different cultures in gradually subordinating the arts of production and consumption to the general art of human conduct, which is the sphere of ethics and social philosophy.

Relativism in Economics.

It is only the comparative theory of institutions which can explain the vast differences in economic and legal systems and moral and social valuations and their divergent trends among different races and civilizations. Both the economic system and the ethos of Hindu religion and communalism, for instance, are entirely different from the economic system and ethos of Christian or European civilization. It is regional and historical economics which gives the intermediate generalisations which have to be compared and collated so that these may rise into a universal science. All social development including the economic is diversely ramifying; yet in spite of diverse and multiform series there is a universal movement. This relativism both in economics and ethics does not point to the relativity of values to men

any more than the discovery of alternative systems of postulates implies the relativity of mathematical science to the human mind. If we view the situation in broader perspective human culture and progress show the unfolding of a single plan or pattern. The very richness and variety of ethical valuations may suggest to us, as Max Scheler emphasises, the reality of an order of value, the strata of which, are discovered through the application of different principles of choice, so that only through the co-ordination of different types of ethos can the whole objective realm of good and its relations be fully apprehended. The institutional and historical methods will coordinate the different economic systems before the entire objective world of utility and labour and the relations between scarce means and the persistent wants of man can be envisaged in their fullness. It may be that a consensus of an acceptable, universal objective standard of wealth and welfare will gradually arise by induction through a synthesis of the different types of ethos and economic systems in the world.

RANADE'S WORK AS AN ECONOMIST

BY

SIR J. C. COYAJEE.

The premier economist of India.

It was an auspicious omen for the future of Indian Economics that the first Indian economist was a bold and capable thinker who stood for breadth, realism and concreteness of treatment. He sympathised with the revolt that was going on in his days against the universalism and the abstraction of the classical school and he was zealous in affording to his country the benefit alike of up-to-date economic theory and practice. He differed from many of his contemporaries in not permitting the Economist in him to be subsumed in the politician. It might be noted that he was the first economist of India in more than one sense. He was the first in the sense of approaching almost all the most important economic problems of our country and in giving a comprehensive view of these in the light of a proper background of economic theory. While his contemporaries and co-workers like Dadabhai Naoroji and Telang were content to criticise individual points in the policy of the Government, Ranade was aiming at a comprehensive view of his subject, and in contrast to several of them he might be said to be the originator of the optimistic school of Indian Economics. Again, while several of his co-workers were animated by the spirit of the advocate and were fearful of making any concessions to the opposite side, Ranade was characterised by a spirit at once judicious and judicial; and he never made any attempt to gloss over the weak points of his nation and country. It would be easy to infer from many of the dicta of his contemporaries, that the only reason why India was not an advanced industrial country at the time was the presence and the policy of the foreigner. It is instructive by way of contrast, to turn to the attitude of Ranade; for while fully espousing the national point of view, he boldly and

openly diagnosed every national weakness. He sneered at the utterances of those who exaggerated the "Drain" theory and who then argued that with such a burden "we are doomed and can do nothing to help ourselves." While Dadabhai, like the skilful advocate that he was, tried to minimise and explain away the absorption of precious metals by India, Ranade did not hide from his countrymen the fact that by having absorbed many hundred crores of wealth in this unproductive way they had only made their position worse. The comparison could be carried on much further and would show that as an economist Ranade towered above his Indian contemporaries.

But even now, when half a century has elapsed since he wrote, he is still our premier economist; and we can still seek inspiration in his bold, just and eminently realistic treatment of his subject. A study of his works will show that he anticipated not only the idea of national economic planning but the true spirit of it—which appreciates the superior importance of the larger issues. The danger of smaller minds is that they cannot see the wood for the trees and it is for great minds to form a true perspective. Thus Ranade, as a realist, is not averse to giving due encouragement to foreign enterprise and capital provided India secured thereby the introduction of new industries. He would not take too much notice even of "some restraints on the liberty of Indian emigrants to settle down as free citizens" in some colonies provided India obtained "expansive and remunerative labour facilities commensurate with the natural growth of her population." He would have had little sympathy with some politico-economic theories of our day sponsored by some great political leaders which would put a brake on large-scale industrialism. In his opinion, "what we have to bear in mind is the organization for industry and capital on the joint-stock principle for collective and large undertaking." His finger still points to the ideal condition for our country—a balance of Agricultural and Manufactured countries. Yet he would be against unduly forcing the pace towards manufactures; for he recognizes "the permanent advantages and disadvantages enjoyed by certain countries and races which regulate the

distribution of industries and he adds that "we cannot accomplish impossibilities. And yet, within these limits there is ample scope for good and honest work for many a decade to come." Above all he laid his finger on the weakest point in the equipment of India—the lack of a sufficient number of capable entrepreneurs—when he observes that if we only knew how to use such resources as we have, and brought them together, we have more wealth and capital than we can at present properly handle. We may note in passing that this was written long before Hawley and Clark, Taussig and Scheumpeter had emphasised the great importance of the function of the entrepreneur. It is significant that while Ranade could congratulate India on "the skill and patience of our industrial classes" he is silent on the subject of industrial leadership.

Amongst other notable features of Ranade's work which might be still imitated with advantage is the entire absence of anything like racial bitterness in his pages. That was because Ranade was essentially a scholar and a philosopher and as such had a cosmopolitant mentality. As a scholar, too, he had an insatiable intellectual curiosity and he was constantly scanning the international horizon for any progressive economic movement which might be copied in India with advantage.

Ranade's general conception of Economics.

Having thus glanced at the main characteristics of Ranade as an economist we might devote some attention to particular aspects of his economic teaching. And to start with a word might be said regarding his presentation of the Philosophy and method of Economics. The then fashionable *laissez faire* philosophy and abstract method would have given poor support to that comprehensive policy of State intervention in economic matters which was the ideal not only of Ranade but of many other Indian leaders. Their problem was how to overcome the authority of the Classical School which was arrayed against their views. Ranade solved the problem by appealing to the authority of the German Historical School, of Carey and "the American School." He also invoked the authority of Sismondi

who had propounded the view that the true object of Economics was the increase of national happiness (not of national wealth) and who advocated government intervention in order to secure the object. Ranade's reference to the French economist Dunoyer was much less relevant, since Dunoyer was an opponent of the policy of government intervention. In a word however Ranade invoked the authority of all economists who "advocated the State regulation of industry and asserted the doctrine of Relativity as being an essential factor of all true economic theory." It was a somewhat miscellaneous collection of authorities and except as regards a difference on the above points from the old school there was not much that was common between the German Historical School, Carey, Sismondi, Dunoyer and Gioga. Nevertheless it served the purpose in hand to show that a great many economists differed from the Classical School on the topics of relativity of doctrine and State intervention. Undoubtedly a reaction was taking place against that school, though perhaps Ranade went too far in calling the product of this reaction "the Advanced theory expounded by the Modern School" or even "this enlarged view of the Science." But he had no doubt shown that "there is a decided reaction in Europe against the *laissez faire* system" and thus he had gained his object. For it was an age when Herbert Spencer's severe limitation of State functions still held the field—at least in India—and it had on the whole the support of the entire classical school behind it. In Great Britain no doubt the decade 1870—80 marked a weakening of the forces of Orthodoxy and "for a time Economics was a much discredited science." But in India the authority of the classical school was still unshaken, and Ranade could assail it only by showing what a number of authorities American, German, French and Italian he could marshall against it.

In Ranade's list of authorities against the Classical School, the omissions are as significant as the inclusions. Thus he could have quoted Carlyle and Ruskin who did as much as any professed economists to shake the authority of that school. But then, at least in India, these two were looked upon as purely literary figures. For a very different

reason Ranade could not venture to quote on his side the opinions of the State Socialists, though for fully half a century before his time they had been advocating the extension of State functions. For such was the terror and dread inspired by socialism in the India of the day that had Ranade quoted on his side names like those of Rodbertus and Lassalle he would have at once put himself out of court alike with Englishmen and Indians. The dread of State Socialism was indeed a favourite argument of those who were opposed in those days to the extension of State functions. Thus even a capable scholar like Sir Raymond West could argue, in a sympathetic obituary notice of Telang that the latter's idea of the enlargement of governmental functions led straight to Socialism.

Ranade showed great skill as a controversialist in this exposition of the conception of Economic theory. His accumulation of economic authorities who were opposed to the *Laissez faire* school told its own tale of a great international reaction in the sphere of Economics. What was even better, he did not unduly stress the authority of any one of the authors of this reaction and skilfully avoided their mistakes. Thus the verdict of recent history of Economics is that Carey was "frequently great—chiefly in his errors." And as to Adam Müller, he gave quite a wrong idea of the grounds on which a national political economy was to be constituted. He put forward the view that the stimulation of the national feeling and the affording of a national character to the people's wealth are desirable consequences of a policy based on such economy. On such grounds protectionism and even some measure of prohibition of exports and imports was advocated. The "desirability of opposition and contest between nations" was also emphasised—a point of view which makes Adam Müller a predecessor of Nazism on its economic side. It is greatly to the credit of Ranade that he did not follow his authorities in these devious ways, and—what is more—he furnished the true rationale of the constitution of national political economy. He made the Relativity of Economic doctrines and precepts the pivot of his argument in favour of the idea of a national political economy. He then proceeded to show

that in the case of India, the strength of the force of competition was noticeably limited, the strength of custom and other regulation was much greater, the mobility of labour and capital was comparatively less, while the rigidity of wages and profits was considerably greater. It is on these concrete, substantial and scientific grounds that he rested his case for an "Indian Political Economy." Much as he admired List's "National System" he showed no inclination to follow the latter in his extremist objectives such as the overthrow of the free-trade principles of the Classical School, on the theoretical side, and the overthrow of the commercial supremacy of England on the practical side. Ranade's chief object in starting the notion of an Indian Political Economy was the extension of the functions of the State in aid to the extent corresponding to the special needs and conditions of India. This was all to his credit, though he had been anticipated in the statement of part of his case by Telang.

As we go over Ranade's observations on the trends of Economic Science and practice fifty years after they were written some reflections force themselves on our minds. In the first place it is not so much from the authors whom he singles out—Carey and List and the members of the Historical School—that the positive contributions to the progress of theory have come. The stars of the Cambridge School and the American School were rising on the horizon as Ranade was writing and the Socialist school was also making its great strength felt more and more. All these developments were favourable to the growth of State intervention in economic affairs. In the sphere of economic policy State intervention has grown from more to more; and here much has happened that would have given joy to Ranade and also much that he would not have relished. The Capitalistic system as modified by State intervention has accomplished a great deal in improving distribution, in conserving natural resources, in controlling monopoly, in regulating competition and even to some extent in mitigating industrial fluctuations through provision of public works. All this extension of State activity Ranade would have approved. But in all likelihood he would have disapproved of the extremes of State intervention as manifested

in the form of Totalitarian States; for they cannot be said to be consonant with the ideals of democracy either political or industrial.

Views on the Industrialization of India.

While few aspects of Indian Economics escaped his notice, there was no topic on which he was more enthusiastic or hopeful than about the Industrialization of India. He had noted with profound regret the progress of ruralization in modern India. But he noted that "during the last twenty years, there has been a clearly distinguishable departure from the till then unimpeded process of ruralizing a vast continent." In more than one review he lovingly traced this turning of the tide in the direction of a renaissance of Indian industries. He could not be responsible for the imperfect statistical material that he was handling, and, on the whole his verdict has been upheld by later students of the Economic History of India. For the cotton and jute manufactures of the day as well as coal-mining and tanneries told the same tale of progress. But, while posterity has appreciated in the main the skill shown by Ranade in his diagnoses, it should pay even greater attention to the spirit in which he would carry forward the great task of industrialization. He exhorted his countrymen to beware of the temptation "to turn back from our present opportunities to a past which cannot be recalled." He emphasised the importance of the spirit of co-operation in organizing our labour, capital and other resources. He admitted that "we have to work against great odds, which are represented by our old traditions, our poverty of resources, and the hostile competition of advanced races." But he was convinced that even against such disadvantages, and under a Free trade regime the battle could be won "if we could direct our efforts by co-operation on a large scale into the proper channels." Protection he claimed indeed, but in a spirit of wise moderation: "India may fairly claim the benefit of the experience of these self-governing communities, and demand breathing time." But he relied far more on a policy of State-help and State direction. He very cogently pointed to no less than seventeen pioneer attempts that had been

made, and had failed to develop an Iron industry in a country like India which is extraordinarily well adapted for such enterprise; and he made an appeal to the State to supply its organized skill and direction to score a success in the sphere.

Coming to the question of the Capital resources required for industrialization—or as he called it—"the problems of Ways and Means" he was satisfied that even as things were then, "we have more wealth and capital than we can at present properly handle." But these resources could be largely increased if "we can count upon the assistance of the State in regulating our co-operative efforts by helping us to form deposit and finance banks." Elsewhere he adds that "the Post Office and Savings Banks deposits are ready to hand. All that the Government has to do is to organize district or city committees of Indian capitalists, to empower them to receive deposits at fixed rates and lend them at slightly higher rates." It is also the business of Government to supply "capital for the new enterprises by borrowing abroad on the same lines as it had been borrowing to construct railways and canals." Such foreign capital had to be imported since "the great want of India is cheap capital ready for investment in large enterprises;" and, "just as the land in India thirsts for water, so the industry of the country is parched up for want of capital." No doubt in this scheme of industrial finance there were some exaggerations, and we are only now beginning to undertake the giant task and feel the real difficulties of such financing. City and district committees such as he suggested might not have often proved skilful and successful agencies for providing industrial finance. On the other hand it must be said in favour of Ranade's ideas that England was in those days the willing and unfailing banker of the world; and given a policy of energetic government intervention much foreign capital could have been provided for the industrialization of our country. Nor, on the whole, can Ranade be accused of ignoring the great difficulties in the path of industrialization. As he well remarks "this diversity and change of occupation is a very arduous undertaking. It presupposes a change of habits, it postulates the previous growth of culture

and a spirit of enterprise, an alertness of mind, an elasticity of temper, a readiness to meet and conquer opposition, a facility of organization, social ambition and aspiration, a mobile and restless condition of Capital and Labour—all which qualities are the slow growth of centuries of freedom and progress." The difficulties in the way of our industrialization could not have been envisaged better. But with equal clarity of vision he marshals the factors working in our favour: "Natural aptitudes, undeveloped but unlimited resources, peace and order, the whole world open to us, our marvellous situation as the emporium of Asia, these priceless advantages will secure, if we endeavour to deserve it by striving for it."

The Drain theory.

Incidentally it is while studying the problem of Industrial Finance that Ranade delivers his valuable dicta on the famous Drain theory. With his extraordinarily acute and well-balanced mind, he perceives both the kernel of truth in the theory and the exaggerations by which it was surrounded. So far as the drain "represents interest on moneys advanced to, or, invested in, our country, far from complaining we have reason to be thankful that we have a creditor who supplies our needs at such a low rate of interest." So also there is no reason to complain as regards "the value of Stores supplied to us, the like of which we cannot produce here." The kernel of truth in the Drain idea is found in the expenses for the purposes of administration, defence and payment of pensions "*so far as they are not necessary* for the defence and good government of India." As against this true drain so envisaged, we have to take into account "the fact that we are enabled by reason of this British connection to levy an equivalent tribute from China by our Opium monopoly." In conclusion he exhorted his audience not "to divert and waste your energies in the fruitless discussion of this question of tribute, *which had better be left to our politicians.*" For once Ranade could not help directing a shaft of sarcasm at politicians whose exaggerations of the drain served as an apology for want of enterprise on the part of some of our countrymen. Nor, it

must be added, was the sarcasm undeserved. For one of our leading politicians, sitting at the time on the Welby Commission, used to put such leading questions as this: "What is the reason why Indians were not able to take up these industries such as tea, or any of the enterprises which foreigners came and took possession of? Is it not because our capital is carried away from the country? Is not that at the root of the whole thing?" The contrast with the spirit animating Ranade's treatment of the topic is obvious. For the latter could not ignore the other great factors which stood in the way of India's economic progress at the time—the want of proper organization, skilled leadership, efficient banking systems, and trained labour. On these matters he repeatedly laid the proper emphasis.

The Population problem.

Had he lived to see the phenomenal growth of the population of India that has taken place during the last three decades, Ranade would no doubt have taken a very serious view of the population problem. As it was, he wrote on the subject during the decade 1890—1900 when plague and famine made a phenomenal reduction in the rate of increase. Nevertheless his sure instinct as an economist made him even then recognize the seriousness of the problem. As he observed, "with a growing population and limited resources the struggle for existence is already being felt as a strain on the social system." He added that "no object of National Economy is more directly practical in its bearing upon the prosperity of the people than the question of providing expansive and remunerative labour facilities commensurate with the natural growth of the population." For the prevailing mal-distribution of population as well as for over-population, he was thinking out suitable remedies first in the shape of regular Immigration from poor and thickly populated agricultural tracts to sparsely populated tracts and secondly in the encouragement of Indian foreign Emigration. Although for his idea of internal migrations he quoted the example of former Indian kings as well as the precedent of Wakefield's colonization scheme, later Indian economists have not seen any great scope for its application.

More recently another factor, of a formidable character, has supervened which militates against the idea, *viz.*, a vigorous provincialism. This factor would by itself prove a great obstacle to attempts to correct the mal-distribution of our population. Such internal migration was more feasible in the past when numerous wars were devastating cultivated areas.

Ranade himself believed that "inland emigration cannot be in any way compared in its volume, or in its immediate and remote bearings on national prosperity, with foreign emigration to the British, French and Dutch Colonies beyond the seas." He expected and believed that there was a "magnificent field for extension of relief to the surplus population of India." His patriotic heart was delighted at the prospect of the people of India colonizing "the heart of Africa and the central regions of Australia." He also employed in favour of such emigration on a large scale the sociological argument of Draper that "the dotage and death, which has paralyzed Oriental races could only be cured by the free transplantation of these people into foreign lands." In fact Ranade contemplated the building up of a Greater India and in pursuit of this great object he would be content to put up even with the restrictions and trammels that had been deliberately put in some colonies in the way of immigration from India. Hence even as regards the Indentured labour migrating to Jamaica from India he notes that "the conditions of employment are on the whole very satisfactory." He puts forward no objection to our sending Indentured labour to Mauritius, although "the planters are not remarkable for their respect of the rights of the coloured people, and the system is liable to gross abuse." He was thus content to put up with these present evils because he expected "further developments in the interest of the Indian settlers in those colonies, at least, where, as in Natal, Trinidad, Mauritius and British Guiana the Indians already represent a considerable proportion of the population." For Ranade was a bold optimist and he would have made light of present disabilities where he was sure of a great and prosperous future for his country. As he well put it, "the *certainties* of the future are too imperative to be much

interfered with by these present dangers and inconveniences." Here spoke the realistic spirit of our author. If any course of action was sure to increase the greatness of India in the future, "nothing is to be said against it on the ground of present inconvenience or trouble."

Needless to say, Ranade would have been profoundly disappointed had he witnessed the present condition of Indian Emigration, and seen even Burma and Ceylon start incessant agitation and legislation against immigration from India. Ceylon perhaps has proved somewhat more amenable to reason than Burma; and yet even in the former the privilege of a limited domicile is surrounded by irksome texts and procedure. The situation has been well summarised recently by the Right Honourable V. S. Srinivasa Sastri. "Diminution of citizenship and even humiliations are perhaps unavoidable. While every attempt must be made at their elimination, we must all learn to be content with such relief as we can get from time to time." This is a poor and disappointing finis to Ranade's great dream of an Indian population expanding steadily over Africa, Australia and the islands of the West Indies and the East Indies.

The Co-operative movement.

Ranade's third important ground for an optimistic outlook regarding the economic future of India was his intense faith in the spirit of co-operation. In this belief he did not stand alone. Another great man who knew India well—Sir Arthur Cotton—wrote at the time thus about the prospects of the co-operative movement: "The very thing for India! Whatever expectations you may have formed as to its results, multiply them by ten, and you will still find them exceeded." Another well-known Indian economist, the late Sir D. E. Wacha, was sure that agricultural banks would secure the economic salvation of India; and Ranade advocated their utilization by the side of co-operative banks. He was however too great a man to be a doctrinaire even about Co-operation; he would employ all agencies that would advance the good of India—whether rural co-operative banks, ordinary agricultural banks or industrial banks. I

have heard a somewhat carping critic describe his essay on the "Reorganization of Real Credit in India" as a rather confused treatment of rural co-operative banks, agricultural banks and industrial banks; while Ranade's summary of the then recent history of the reorganization of credit in the principal countries of Europe was criticised by him as wanting in proportion. I was however able to reply to him that Ranade was taking a comprehensive view of the problem of Credit—both industrial and rural in India—and was reviewing all the remedies that were available for the want of organization of such credit. It is true that the experience of Egypt in the matter of agricultural banks has not been of a particularly happy character. But since the rural Co-operative credit movement has encountered so many obstacles in India we might advisedly resort to some experiments with agricultural banks. Again in Ranade's essay the problem of Industrial finance is treated alongside that of Rural finance because the author was taking a general view of the total demand for capital for financing both from agriculture and industry in India on the one hand and the aggregate supply of funds for the purpose. Among the latter he justly emphasised the crores of Rupees spent annually by our countrymen on the absorption of gold and silver, whilst the cultivating and artisan classes can get no loans except at rates of interest ranging from 12 per cent to 24 per cent.

As regards his review of the progress of the re-organization of real credit in Europe, we have to remember that its author was not writing a formal treatise on the subject, but was making a sketch of the main features of the work done. Thus more space is devoted to Co-operative Credit in France and Switzerland because "these were countries of peasant proprietors with small holdings like those in India." The premier place given to the Boden Credit Institute of Austria and Hungary was justified by the importance of Land Mortgage Credit, though an even better example might have been found in the Prussian Landschafts. The period at which Ranade wrote on Co-operative Credit was one in which it was very difficult to get a clear and correct perspective of the Co-operative movement in the international sphere, since so many experiments were

being tried in so many different countries. Yet Ranade was on the whole right both in his general perspective of the movement and as regards the facilities which he advised the State to afford to Co-operation in India. He would have the State "lend the help of its officials for control or management or inspection works, facilitate the work of recovery of dues by co-operative bodies, exempt their business from Stamp duties and Income-tax and grant subsidies to them." The one proposal on which one might differ from him would be that the deposits of the Presidency Bank and of the Post Office Savings Banks might be employed as auxiliaries of rural and industrial finance.

There can be no doubt that Ranade's advocacy of Co-operation must have helped to prepare the Indian public for the movement. Nearly ten years ago Sir Henry Storks had approached the Government of India and recommended the inauguration of the movement in India; but his "pioneer attempts remained without efforts." Retired civilians like Sir Arthur Cotton also backed up the movement, and the year after Ranade read his paper on the subject Lord Wenlock appointed Nicholson to carry on his famous inquiry into Co-operative banking. Thus Ranade figures among the pioneers of the Co-operative movement in India. He had high hopes of the triumph of Co-operation in India; and had he been living to-day he would have been surprised at the luck of vitality and progress shown by the movement in India.

The progress of Financial Decentralization.

Ranade was not the man to neglect any important aspect of the important economic developments in India in his day. He might therefore be expected to have been profoundly interested in that programme of Decentralization of Finance which had been inaugurated in 1870 by Lord Mayo and which had been adumbrated by Laing and Massey. In the year 1894 Ranade published an elaborate study of a quarter of a century's progress of that financial development, first in the Quarterly Journal of the Poona Sarvajanik Sabha and later in pamphlet form. That publication is still important as showing the scientific spirit in which Ranade approached a highly controversial topic and his meticulous

exactitude in dealing with financial matters. A great controversy was going on the subject of such Decentralization. The main attacks on the system came from Messrs Dadabhai Naoroji, Gokhale, S. N. Banerjee, D. E. Wacha and G. Subrahmaniya Iyer. One important issue in the controversy was the alleged unfairness of distribution of the assignments among the different provinces. It was indeed a most difficult matter to satisfy all provinces as regards the justice of any particular settlement. For the provinces were very differently situated in matters like revenue, expenditure, income, population and historical antecedents. As early as 1887 the idea of the abolition of the divided heads and of "a clean division between central and provincial revenues" had been put forward and was supported by most of the Indian critics mentioned above. But as later experience (after the year 1919) proved, even this was no panacea. Another point on which there was much ill-feeling was that the Government of India appeared to be benefiting from successive settlements. What concerns us most here was the method of treatment adopted by Ranade in the face of such a perplexing and controversial topic. That method was that of a scientific student of the subject. What he aimed at was to place the figures before the public whom he was educating and to let such figures speak for themselves. So keen was he on securing the accuracy of his figures and their proper arrangement that he submitted his analysis of Provincial Finance to the Accountant General of Bombay with the request that the latter should go through the figures and make the necessary corrections and suggestions. It is satisfactory to note the remark of the Accountant General to the effect that "the pamphlet will, I am sure, be very useful." His assistant added that all Ranade's "main facts and conclusions were correct."

As has been said above, in general, Ranade allowed the figures of finance to speak for themselves. It is only rarely that he puts in criticism. Thus it was enough for him to express his general approval of the system of Decentralization and observe that "after twenty years, we are now reaping the first harvest of the great change contemplated in 1870, and it is in this light alone that the highest moral interest

attaches to the history of the development of Provincial Finance." As regards the results of the Decentralization to the Government of India he adds an occasional critical remark like this: "At each renewal of the contract the Imperial Treasury was benefited by considerable deductions in total expenditure transferred, and it levied besides extra-ordinary contributions in times of difficulty, which were in some cases repaid to the Local Governments." He might have added that on the whole owing to the era of exchange difficulties and also owing to the Burmese War Expenditure the position of the Government of India had not improved; also that considering all things it was an era of "growing prosperity for the Provincial Governments."

The Culture System of Netherlands India.

The Culture System of Netherlands India has been described and commented upon by Ranade as an example of wise intervention of the State in economic sphere. That account is based upon the official report submitted to Lord Dufferin by Vanden Berg, the Governor of Java, in 1885. There is no doubt that the system succeeded ultimately in developing the resources of the island. But obviously Ranade was not aware of the terrible sufferings of a whole generation of peasants which was the price paid for this progress. The reader will no doubt study the account for himself with the attention that is due to whatever he wrote. It will suffice here to emphasise a few of the aspects of his treatment of the system. In the first place, Ranade describes it as one under which the State, the Contractor and the peasant were all benefited materially. In the second place the credit for the development of the islands is given to the governor Van den Bosch. He makes no mention of the terrible price that had to be paid for that development in the way of human lives and misery. Finally he condemns the independent system which succeeded the Culture System in the Dutch East Indies. It was once the rule to praise Van den Bosch for the inauguration of the system. But later accounts have given a very different complexion to the affair. As M. Cabaton says in his work on "Java, Sumatra and the other islands of the Dutch East Indies" "Van den Bosch was given

a free hand and installed in the East Indies the system of forced cultures which at one moment was the glory of his name, and afterwards became his disgrace." It is necessary to modify the historic setting of Ranade's essay not only in the light of M. Cabaton's work but in that of authorities like the articles on Java in successive Editions of the Encyclopaedia Britannica, which are themselves based upon a vast literature on the Economics of the Dutch East Indies.

A brief survey will be attempted here (mainly on the authority of Cabaton's work) of the lines on which Van den Bosch instituted the Culture System. As there had been a succession of budget deficits that Governor obtained permission to introduce the new system. He began by taking from each peasant one-fifth of his land under the pretext that as compensation he would be relieved of his land-rent which he had paid to the government. As a matter of fact the land-rent was not remitted at all, while the peasant was forced to grow the "rich crops" upon the land that he had been made to part with, by a system of *corvée* or forced labour. The peasant thus derived no benefit at all from his cultivation of crops like sugar, coffee, pepper, indigo, tea and tobacco. On the other hand, "the State benefited twice over, and without expending much energy; for it leased its lands, and those subject to its *corvée* to contractors who undertook to feed the workers and pay the administration a fixed price in advance for the crop." Naturally the contractors neglected to perform properly their duty of feeding the peasants. The unfortunate peasants saw on the other hand their forced labour greatly increased and on the other their lands appropriated. For Van den Bosch suspecting that his exactions might lead to a revolt began to build fortifications with the forced labour of the natives. The culmination of the peasants' misery was reached when they found that the lands that had been left to them were either too poor or too remote from their homes to grow their own necessary food-crop. The result was a terrible famine which swept away vast numbers.

But the reader might well ask how and why the natives of the Dutch East Indies endured such sufferings without rising in general revolt against the tyranny. The answer

has been thus given: "The natives did not rebel for their ādat (custom) with their petty princelets, had accustomed them to all kinds of extortions, and Van den Bosch had the art of winning over the chiefs to this legal spoliation, interesting them in it by means of a large bonus on the crops of those under their administration." As it was, however, that governor, who left nothing to chance, had to resort to new fortifications.

The financial results to Holland were, however, excellent, even fabulous. Here at least there is no difference of view between Ranade and the other authorities. The former observes that the land revenue rose from 18 million florins in 1817 to 136 million florins in 1860. He adds that "the surpluses of revenue between 1831 and 1871 amounted to the large figure of 725 million florins." If anything M. Cabaton is more eloquent in describing the benefits from this plantation system that accrued to Holland: "A veritable rain of gold fell upon Holland. Every year the budget showed a credit balance of 30 million florins which went to swell the coffers of Holland . . . . The shareholders spoke of nothing but of their saviour, Van den Bosch. In twelve years nearly 2000 million florins was extracted from the colony by the most scandalous system of spoliation." No doubt prosperity came at last but at an enormous price. "The system has deprived Java of enormous sums of money and of precious lives. By condemning the population for more than fourteen years to hard labour, which was also for them unjust and fruitless labour, it led to their intellectual regression; it was therefore from the ethical standpoint, absolutely unpardonable. Yet we cannot forget that by the realistic sacrifice of a whole generation, it transformed the island into one of the richest and most fruitful of agricultural countries." Even from this long-period point of view we must give their due not merely to the system of Van den Bosch but to the genius of the Dutch for the development and introduction of new agricultural methods.

As it was, however, Holland saw the need of replacing its Culture system by what Ranade calls the Independent system and others term the Free Labour system. He contends indeed that "the Independent system of planting

does not prove as profitable as the old system of protected and subsidized planting and manufacture". But then in some lines of work slave labour is at a great advantage as compared with free labour. After some years accounts began to reach Holland of the atrocities committed in its colonies in the name of economic progress and financial prosperity. The Liberal party took up the matter in Holland and many zealous reformers championed the cause of the natives. "The Liberal party loudly expressed its indignation that a moral, and supposedly civilised, people should in the nineteenth century condemn another to compulsory labour, and steal its lands and its money, without even using the latter to ameliorate its lot or to educate it." At last "the system was condemned. It was slowly disorganised and the policy of enriching the island by means of free labour replaced it. Gradually the compulsory crops disappeared; the last, *viz.*, sugar being abolished in 1890, when the Government maintained the Coffee crop only for a limited period and with a promise to extinguish the policy completely within a certain fixed time . . . . These reforms which were due to the Liberal party were crowned by the Agrarian Law of 1870 by which the State guaranteed to the natives the right of property in the soil which they themselves had claimed or cultivated." As Ranade has correctly observed, the financial results were not so favourable under this free labour system as under the compulsory Culture system and the latter was more "profitable." But in spite of that we must admire the change of policy.

It is remarkable that in such an easily accessible work as the ninth edition of the Encyclopaedia Britannica (published in 1880 ten years before Ranade read his paper) the article on "Java" supplies a good perspective of the nature of Culture system and of its decline. It is observed there that "the cultivation of the great wealth-giving crops of Java has long been carried on in the interest of the Government, the native peasantry being obliged to devote so much of their soil and toil to satisfy the demands of their European masters. Introduced in 1830 by Van den Bosch, it continued in force till 1873, and has not altogether disappeared even yet. As far back as 1856, modifications of its arrangements

were introduced by Duijmaer van Twist; and the position of the native was further improved by Sloet van de Beele. The reforms were for a time retarded by Governor Mijer." It is added that "the general scope of the newer legislation is to leave as much as possible to private initiative, native and European, but it will be a long time before the leading strings can be altogether dropped." The reason for this is given in the words of Mr. Kestern who was obviously an authority on the subject: "The Javanese knows no freedom. His whole existence is 'regulated.' If he is bound to render culture-service, the administration shows him to what department to apply himself, when and how he must plant."

In the Ninth edition of the Encyclopaedia Britannica the article on Java was written by Mr. H. A. Webster. In the Fourteenth edition the origins of the Culture system and its effects are denounced even more vigorously. Thus it is observed that Van den Bosch "was governor-general and colonial minister from 1830 to 1839—black years in Java's history. He resumed the Daendals' policy of extortion and savage tyranny. From a population of some 5,000,000, it is estimated that Holland by forced cultures secured £166,000,000 sterling in 12 years." Rebellions naturally followed such an exasperating policy, and there was "more than one rising from 1848 to 1888. In the meanwhile Dutch opinion at home was roused, and in 1854 laws were passed intended to put the whole political and economic administration on a humane and progressive basis, though the reform did not become completely effective till 1872."

In concluding these remarks it is permissible to surmise that Ranade was for once misled by his reliance on some one document on the subject of the Culture system. Indeed, he mentions only one—the report submitted to Lord Dufferin on the subject by the then Governor of Java. Otherwise one cannot understand how a person of such economic insight as Ranade could give his blessing to a system which not only deprived the natives of Java of their property in land, but reduced them to a state of virtual slavery. In fact the system went against many of the economic ideals of Ranade. In another of his essays he desires that the Indian peasant

should be given the advantage of "that magic of property and of free institutions" which had worked the wonderful change in the economic life of the French peasant. He was all for the "displacement of arbitrary or bureaucratic power." In the face of such wise pronouncements and dicta it is difficult to understand Ranade's recommendation that "we may fairly expect Government to try as an experiment the policy of the Culture system which the Dutch Government worked for thirty years in its own possessions with signal success." As has been surmised above, the misconception could only have been due to reliance on a single report upon the subject and to the want of anything like plentiful material on it at the time when Ranade wrote.

Land problems of India.

Like other distinguished writers on Economics Ranade had to pass through a period of apprenticeship when he was forming his views and his standards. The Essays of Ranade on the Law of Land Sale in British India, on "Prussian Land Legislation and the Bengal Tenancy Bill" and on the "Emancipation of Serfs in Russia," all belong to this formative period of our author's life. While these essays show some anticipations of great tasks of national reform in the Economic field as also generous sentiments natural to youth, they also have some drawbacks due to the excess of enthusiasm natural to that period of life. Thus we find anticipations of great reforms in the proposals for "the redemption or permanent settlement of the land revenue at a moderate figure once for all" and for ridding the peasantry of their ancestral debts through the instrumentality of subsidised private banks. "It is surprising to find such great reforms adumbrated over sixty years ago—reforms which we have not begun to work on even when the twentieth century has run through nearly half its course. The notion of the redemption of land revenue is still in the realm of remote ideals and we are still at the stage where our actual achievement consists of attempts to regulate land revenue assessment in the provinces by statute." The next stage might well be, as our present-day reformers suggest, "a flat land cess and an income tax on agricultural profits." As

regards the ridding of the peasantry of India of their ancestral debts, we have now adopted the policy of Debt Conciliation and we have Agricultural Debtors' relief acts in several provinces. But acute controversy is still raging about the possible consequences of such measures especially upon the supply of credit to agriculture. In any case Ranade was too high-minded and expected too much from human nature when he observed that "an insolvency law cannot benefit anybody, where none but castaways and waifs of society wish to degrade themselves to seek its advantage." One might also be sceptical about his view that once the ryot is relieved of his debt and given full property in his land "there need never be any apprehension of his running into debt again and not practising thrift." The question is a much more complicated one—that of affording the agriculturist an adequate income and of securing to him an economic and indivisible holding.

He expresses in the Essay on "Law of Land Sale" rather strong views on the subject of Land Alienation. Thus he observes that "as long as the difference in the habits and education of the saving few represented by the Bania and the Brahmin classes, and the spending many who count by millions among the military and the cultivating classes remains good, property will gravitate from the one class to the other, notwithstanding all prohibitory legislation. The utmost that Government can safely venture to do is to regulate this inevitable transfer, to temper the change so as to avoid all immediate hardships." He was here arguing against Sir Raymond West who had "proposed that the power of alienating land should be limited." The controversy on the matter has continued unabated during the ensuing sixty years and even the results of the test case—that of the Punjab Land Alienation Act of 1901—have not been decisive and have furnished material to the advocates of both sides of the question. Thus Prof. Radhakamal Mukerjee regrets that that Act "has been unable to check the disintegration of the village community" and that "the lawyer and the moneylender flourish by taking full advantage of the opportunity to exploit the ignorant peasantry." In a way this supports Ranade's view of the inevitability of the

transfer of land from the cultivating class. On the other hand other economists appear to hesitate between the need for "preventing reckless borrowing on the part of an ignorant peasantry and the policy of restricting powers of land alienation. In other countries it has been found possible to restrict transfer of land without injuring agriculture." In India the controversy in which Ranade engaged in 1880 is still with us.

The same cannot be said, however, of another great controversy in which Ranade engaged in 1883—regarding the necessity of the Bengal Tenancy Act of 1885. Since his time the necessity of that Act, and even of extending widely its underlying principles and main provisions, has been generally acknowledged. As the most recent authority on the subject shown, the series of Tenancy laws of Bengal since 1859, have only striven to give legal force to the customary rights of the cultivators which had been obliterated by the Permanent Settlement. The Act of 1885 and other Tenancy Acts merely attempted "to secure fixity of tenure and protection against arbitrary rents and illegal exactions." Indeed the Act of 1885 proved quite inadequate to protect the tenant and had to be largely supplemented; and even now uneconomic enhancements of rent cannot always be prevented. The fact is that Ranade in his youthful enthusiasm was fighting a chivalrous and forlorn battle in defence of the Landlord class and its privileges which he saw threatened by the Tenancy Legislation. He believed that the legislatioon would set up class against class. "Our main contention," he observed, "is that the landlord's rights, sanctioned by usage and by law, will be adversely affected by these changes without providing any compensation to these classes, and that the permanent peace and advancement of the country will not be promoted by provisions which at every step set class against class, and compel resort to the courts, or to the Collector's agency." He had a counter-proposal for Government floating a loan of 340 crores and advancing the amount to the ryots—recouping itself by charging the ryots six per cent interest for thirty-five years. This would be a very large financial commitment, and in view of recent developments in the co-operative

movement of Bengal it might be doubtful whether the ryot would be willing to go through "the slow discipline of thrift to retain their newly acquired status." Sixty years have gone by and Bengal is still attempting to find ways and means to pay off the landlords' privileges.

Such is our brief summary of the work of Ranade in the sphere of Economics. We may safely say that his was a considerable achievement in the field. That he was open to occasional criticism cannot be denied; but then where is the economist whose work is not open to criticism? Indeed in Economic literature the rule seems to be that the most eminent writers have the heaviest criticism directed against them. And this rule or practice is perfectly defensible; for only the eminent writers venture to deal with, and to make contributions to the fundamental problems of Economics. In the case of Ranade our wonder is the greater when we consider that most of his time was devoted to legal studies and official work as well as to philosophical and literary work—Economics being only a "residual claimant" on his time and energies. But perhaps on that very account his work is particularly instructive and attractive. He performs none of the "mental acrobatics" which mark the work of so many professed Economic theorists of our day. He is constantly envisaging the practical effects of his teaching; and yet he is essentially an idealist. There is nothing tedious or long drawn out in his treatment of his topic and it is with a few bold touches that he formulates his proposals and his descriptions. He has also the intellectual capacity to see both sides of any question. Such was Ranade whom we may well acclaim as the ablest writer on Indian Economics since the days of Kautilya.

PROTECTIONISM AND INDIAN ECONOMIC THOUGHT

BY

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Few controversies in economic policy have had such a chequered history as that of Free Trade versus Protection. Until quite lately it appeared to the Free Trader that Protectionism was a Mephstophelian monster that had got a grip on the good society and would not permit things to work out in the (utopian?) fashion he dreamed that they ought; while to the Protectionist the Free Trader appeared, at best, to be an ineffectual angel beating his luminous wings in the void. Besides, in our country the Free Trader has appeared at times to be—shall we say an unwitting instrument of vested (and vesting) interests—shining in the borrowed philosophy of a hackneyed—and later on exploded laissez-faire.

If we place ourselves in the era before the Great Depression or before the War of 1914—18 it will be readily agreed that the above picture is not overdrawn.[1] Indeed a yawning gulf divided the protectionist and the free-trader as theorists. It is only of late that with the chiselling of the classical theory of international trade and with an improved theoretical apparatus of the Protectionist, the two have come nearer each other—indeed very near understanding (if not respecting) each other's position. The protectionist has no longer to depend upon the 'concessions' granted by the free trader nor on "the inadequacy of the theoretical foundations of the "laissez-faire," nor on the same writer's most elegant epitaph of laissez-faire nor upon "the presumptuous error in treating as a puerile obsession what for centuries has been a prime object of practical statecraft."

[1] See also some of the footnotes in the last section (preceding the conclusion) of this paper.

Indian economic thought on this problem has been believed to be largely protectionist and it has been as a rule taken to be either unscientific or pseudo-scientific,[2] the most constructive part of Indian writers' contributions having been taken to be non-economic arguments, *e.g.*, India was pre-eminently "a backward country wishful to develop manufacturers." It was held that apart from the infant industries argument the theoretical position of the Indian protectionist was extremely weak. But this was not enough. For a not inexplicable reason (shall we say thanks to the traditions laid down by the Government in the matter of fiscal policy) "The theoretical free trader" said the Montford Report, "hardly exists in India at present . . . . But whatever economic fallacy underlies his reasoning, these are his firm beliefs; and although he may be willing to concede the possibility that he is wrong . . . ."

Secondly it is also held that as in the case of other theories Indian writers have borrowed freely from List's "System" yoked into service the handy arguments of the Historical School and generally basked in the economic nationalism of the post (1914—18) War world. "It is somewhat odd" said Dr. John Mathai in his Presidential Address to this Conference at its Agra Session, "in view of the natural aptitude of the people for analytical reasoning that hitherto so little impression has been made by our scholars on the intellectual apparatus which forms the core of the Science of Economics . . . ." and himself proceeded to indicate partly the reason therefor. He pointed out that the beginnings of the organized study of Economics in India had coincided with the growth of the national movement in its more active phases.[3] As a generalization it will not be difficult to agree with the aforesaid remarks. But it may also at the same time be admitted—if these are to be taken

[2] Cf. Even Mr. B. P. Adarkar dealing with "recent years" asserts that the lay public has been mostly guided by cheap appeals to national sentiment.

Also: B. N. Adarkar, *The Indian Tariff Policy*, pp. 140-141.

[3] Cf. Benoy Sarkar's *Economic Development*, Vol. I, p. 146.

as jibes thrown at Indian economic thought instead of introspectional observations—that barring the utterances of purblind protectionists or publicists subsequent events and later refinements of the theory have gone far towards vindicating a large part of leading Indian economic thought on Fiscal Policy. There is another sense in which the critic like the authors of the Montford Report can be said to have been answered. The theoretical free-trader has *not* been absent in India either before or after the advent of Discriminating Protection. Thus Dadabhai Naoroji, Gokhale,[4] D. E. Wacha to mention the leaders in the pre-protectionist era were pronounced free traders. To the other period we shall turn presently. All that we need stress here is that it is not correct to aver that Free Trade Theorist in India (even until lately) hardly existed.

When we have been speaking of this vindication we must not be blind to the fact that for whatever reasons (indeed it is difficult for an Indian student to read the sordid chapter of India's fiscal policy in the XIX century without a surging of his blood) a number of publicists and some economists have almost inadvertantly landed themselves into arguments the best part of which is political rather than purely economic thought.[5] It may also be added—and this will be amplified later—that the early Indian writers, too, were convinced about the advantages of Free Trade but that the fiscal policy—that was imposed on India was a spurious free trade one. Even Gladstone complained of the

[4] Subject to what is pointed out further on.

[5] Thus if we take the latest example of a writer who has already won his spurs: Mr. B. P. Adarkar surveying Discriminating Protection says, "A poor and weak and backward country, a Government that is irresponsible to legislative representation, irresponsible to public opinion and unamenable to logic or equity, a body of self-interested bosses and masters at "home" directing the affairs of a subject nation, a vitiated formula of protection and a score of bottlenecks and hurdles deliberately created to defeat and disrupt every sign of industrial progress—these are a poor equipment for the development of industries." The present writer would venture to say that he awaits with interest the reviews of Mr. Adarkar's *The Indian Fiscal Policy* in the British journals.

application of free trade principles to India in all their rigour and "without a grain of mercy."[6]

But it is exceedingly interesting to survey the development of Indian economic thought on the fiscal doctrine and relate even the past utterances to the growing body of the theory of international trade and prices and of the control of international trade. Here, for our present purpose, we shall have to confine ourselves largely to the historical side and content ourselves with a brief indication of its relation to the wider field of the theory.

For the sake of convenience our study may be divided into the following periods:

I. 1857-1894. When the foundations of modern Indian economic thought were securely laid by Ranade and G. V. Joshi. It is somewhat difficult to agree that these beginnings "coincided with the growth of the national movement *in its more active phases*." Perhaps the prostration of Indian culture was never more complete.[7]

II. 1894-1907. A period dominated by the Cotton Excise Controversy, the first decision about Imperial Preference, the first Swadeshi movement and Industrial Conferences.

III. 1907-1919. A rather uneventful period; but it is taken up by Gokhale, Wacha, Webb, J. N. Sarkar, V. G. Kale and P. N. Bannerjee and it ends with the Report of the Indian Industrial Commission

[6] See Gokhale's speech in the Imperial Legislative Council on 9-3-1911.

[7] We need not pursue this argument here as it would lead us to non-economic issues. But it may be noted that even as late as 1908-1909 a series of lectures were delivered and published for the Government of Bombay on *Indian Economics* by Lees-Smith.

and the advent of Fiscal Autonomy Convention.

IV. 1919-1930. The period that begins with the operation of Fiscal Autonomy and the enunciation of Discriminating Protection. It is largely taken up by the controversy about the wisdom or inadequacy of this policy and the coming under way of that policy.

V. 1930 onwards. "On our way." With the actual operation of Discriminating Protection there have naturally arisen pleas for revision or review on the ground that the protection granted is inadequate or that it is too rigorous or undiscriminating.

We may also note, in passing, that these dates are obviously of great significance to the student of our Tariff history.

I. *1857—1894*. This period as is well known is dominated by Ranade, Dutt, Dadabhai and G. V. Joshi. One may also mention the names of K. T. Telang and Subramania Iyer; the former entered a strong plea for the protection of Indian industries as early as 1879. "Looking only at the economic aspects of the quesiton, it appears that not merely is protection to native manufactures unobjectionable, it is even desirable in the interests of our country." The latter in his "Some Economic Aspects of the British Rule in India" said, "The British nation must be frankly told that the Indian people have no doubt whatever in their minds that so long as the present so-called Free Trade and unequal competition continue India has no hope of a future which will be distinguished by material prosperity."

We need not enter upon any detailed examination of the arguments employed by Ranade, Dutt and Dadabhai. Their views have been made well known either through their biographies or through text-books on Indian Economics. But we feel that the writings of G. V. Joshi have not been equally made known or that justice has been done to their

work. It may be that Ranade's name eclipsed Joshi's and the latter had accepted the former as his teacher and guide. But for the firm grasp, the wide range of subjects dealt with, the wealth of arguments employed, the sureness of touch and insight displayed, his position in the history of Indian Economic thought is surely with the highest. In the matter of fiscal policy he drew inspiration not from List (as did his guide), but from J. S. Mill. "Nor again does our scheme contemplate narrow Protectionism . . . . and (we) hold with Mr. J. S. Mill that it is both defensible and beneficial when "temporarily" adopted ' in a young and rising nation ' to allow ' a fair trial ' for new industries ' under a new set of conditions.'[8] He also was quite certain that Protection was no panacea for all their ills and that "Protection . . . . unaccompanied by technical education . . . . will not help us much."[9]

Dadabhai Naoji was a free trader by conviction. "I am a free trader . . . . I am a member and in the Executive Committee of the Cobden Club for twenty years."[10]

It is indeed difficult to overestimate the pioneering task which Ranade and Joshi and Dutt performed in the field of Indian economic thought. They threw off the shackles of English Political Economy and began to look beyond for an understanding of economic principles. They also steered clear by not allowing their reasoning to be mixed up with their politics or their ethics.[11] They emphasised the historical approach to the study of economics at a time when English thought was just beginning to sicken at the perpetrations of the deductive method. They advanced arguments in the field of economic policy that have stood the test of time and have borne fruition in action. Further

[8] See his *Speeches and Writings*, p. 822.

[9] *Ibid.*, p. 667. Elsewhere he propounds his plan of state interference (aiming at industrial revival based on self-help), pp. 824 *et seq.*

[10] Address to the Calcutta Congress: see R. P. Masani, *Dadabhai Naoroji*, p. 502; see also the next section. The references on the *Poverty and Un-British Rule* are well known.

[11] This easily applies to Ranade and Joshi.

may it also be noted that all these writers subscribed to the "Drain" theory, conducted a searching enquiry into the poverty problem and Ranade and Joshi in particular clarified a great deal the implications of the Drain and the policy of Government (or want thereof) in the field of public finance.

II. *1894—1907*. There is one common feature between this first period of our study and the other to which we now turn. The student of tariff history in India perhaps does not need to be reminded that if the British administrators failed to find an Indian Free Trader[12] it was because even the doctrinaire free-traders were shocked at the display of laissez-faire and unabashed exaction of fiscal serfdom from an unwilling Government of India! R. C. Dutt was not exaggerating when he said, "As an instance of fiscal injustice the Indian Tariff Act of 1896 is unexampled in any civilized country in modern times."[13] Our purpose, however, in referring to this controversy is that it is this policy more than anything else—we shall presently refer to the Cotton Excise Controversy—that was responsible for the great importance even in the purely economic field—attached to Swadeshi. With the memories of the past measures that had led to the "ruin of Indian industries," with the enforcement of an ' interested ' laissez-faire and at the sight of the Excise Monstrosity even the Free Traders clamoured for Fair Trade. Dadabhai Naoroji for instance said to the Calcutta Congress "I am a free trader . . . . and yet I say that Swadeshi is a forced necessity for India. As long as the economic condition remains unnatural and impoverishing . . . . the talk of applying economic laws to the condition of India is adding insult to injury."[14]

[12] Cf. the oft-quoted remark of Lees-Smith: Public Opinion in India is overwhelmingly protectionist.

[13] *India in the Victorian Age*, pp. 543-544.

[14] Cf. also *Poverty and Un-British Rule in India*, pp. 61-62. " Free Trade between India and England . . . is something like a race between a starving, exhausting, invalid and a strong Man with a horse to ride on . . . . Let India have its present drain brought within reasonable limits and India will be quite prepared for free trade." Cf. also R. C. Dutt's Presidential Address at Benares, 1903.

It is therefore not correct to regard this Swadeshi movement as altogether "Voluntary protection." It was the only weapon they could advocate with success against the measures of the Government which they found were calculated to cripple the start of India's industrial growth. Yet this argument is mixed up with protectionism. Lees-Smith not only found public opinion in India overwhelmingly protectionist but also "the fact that Indians of all shades of thought are unanimous in accepting this doctrine (Swadeshism) which indicates the strength of the protectionist sentiment." Surely protection must be made of sterner stuff.[15] This period is more of interest to the student of tariff history than to that of the history of Indian economic thuoght—a period taken up by the Cotton Excise Controversy (which really begins from 1874), Countervailing duties on Sugar and Imperial Preference. The first one of these left a scar on Indian memories of Indo-British economic relations which may be compared to that of the Amritsar massacres in the political field. A silver lining to that cloud, however, is provided by the spirited protests which some members of the Viceroy's Council made on these occasions.[16] It required the exigencies of War to draw out a confession of all this from the Indian Industrial Commission. "The industrial system is unevenly and in most cases inadequately developed and the capitalists of the country with a few notable exceptions have till now left to other nations the work and the profit of manufacturing her

[15] It is this English economist who not only cites Dutt, Gokhale and D. B. Ambalal Desai's addresses at the Industrial Conference for this purpose but regales his audience with such stuff as: "To the highest type of Indian thinker the economic reason does not come first." "India needs a strong free trade school among her thinkers and administrators." The statements we have cited will perhaps suffice to indicate how the free trade gospel had blinded even such people. Cf. also *Economic Journal*, December, 1925: "the very strong political feeling which Indian writers are unable to exclude from works which should be purely scientific. Party politics like King Charles' head are always cropping up . . . ."

[16] Cf. the opinion of *The London Times*, 5-3-1917, cited in the *Industrial Policy of India*, p. 43.

valuable raw materials or have allowed them to remain unutilized."

The last one—Imperial Preference—raises an issue which becomes more important later on. It would suffice our purpose, here, to note that the faithful adherence to the Free Trade gospel after the manner of the British Government[17] enabled the Government of India to toe the line with Indian thought on the subject. Secondly, the question remained largely an academic one to the Indian mind and was naturally mixed up with the political issue of fiscal autonomy. Thus Gokhale urging the limiting of the Excise Duty to higher counts only even on grounds of Free Trade[18] asserted that so far as "Tariff Reform" (Imperial Preference) was concerned, its advocates "would insist on keeping India in bondage" and concluded "I do not regard the question as within the pale of practical politics" until fiscal independence was reached.[19]

III. *1907—1919.* This period is distinguished by two important developments. There are in the first place, even more pronounced free-traders like Gokhale and Wacha than their predecessors. They, too, no doubt shed the dogmatism of the gospel. Secondly, from now onwards we get thinkers who devote themselves entirely to economic studies, who lead economic thought in place of men of affairs who equipped themselves with the prevailing economic doctrine for the purpose of their public life. Thus we have

[17] Sir Wm. Clarke admitted in the Viceregal Council that in fiscal matters "their policy is and must be the policy of His Majesty's Government." Cf. Lord Curzon's speech in the Commons in 1908 quoted in Lovat Fraser's *Lord Curzon and After*, p. 347.

[18] Gokhale's Speech in the Imperial Legislative Council, 9-3-1911, on Cotton Excise Duties, *Speeches and Writings*, pp. 435-436.

[19] Cf. also the Memorandum of the India Office submitted to the Colonial Conference of 1907 which concluded "It is doubtful how the measure would commend itself to public opinion in India, and its adoption would be likely to give rise to demands for other changes in the fiscal system of the country *which would be difficult to refuse and injurious to prominent industries in the United Kingdom.*" (Italics ours.)

V. G. Kale and P. N. Bannerjee (and J. N. Sarkar for a time) who would be popularly termed academic economists.

Besides the names already mentioned there are two others, *viz.*, G. M. Chitnavis and Montague Webb. The first moved a resolution in the Imperial Legislative Council recommending the adoption of Imperial Preference if thereby free-trade could be given up. This had a strange parallel in 1930 when the Legislative Assembly had to accept preferential rates for British textiles rather than face the prospect of total inaction by Government.[20] M. de P. Webb was a strong advocate of Imperial Preference but had to admit that "on the whole the probable benefits to India would be extremely small."[21]

Gokhale pointed out the "disastrous character" of a "policy of free trade that was forced on a country circumstanced as India was." He also conceded that "The State by a judicious system of protection should ensure conditions under which new infant industries can grow up" (*vide* America, France and Germany). He would, however, distinguish between the right kind of protection which while giving "the necessary stimulus and encouragement and support" would take care "that no influential combinations . . . . come into existence,[22] and "the wrong kind of protection." He would even go so far as to say "And I believe that the right kind of Protection if available will do good to India." But he feared that this kind of protection would not be allowed to operate looking to our past experience: "and this huge engine of protection which is a vast power will be employed not in the interests of the people of India but in the interests of those parties" that had in the past received careful attention of the Secretary

[20] See *Industrial Policy of India*, pp. 59-60.

[21] He was effectively answered by Kale: see *Indian Industrial and Economic Problems*, Ch. XIII.

[22] It is this right kind of protection, which Coyajee claims was recommended by the majority of the Fiscal Commission. He therefore throws "the weight of his (Gokhale's) authority into the scale of discriminating protection." See also our remarks in the next two sentences, and the next footnote.

of State.[23] In the speech in the Imperial Legislative Council cited before, however, he concluded "But situated as India is, I fear there is no likelihood of that kind of Protection being available to us; and it is my deliberate conviction that in our present circumstances, a policy of Free Trade reasonably applied is after all the *safest* policy for us."

We have made use of these lengthy quotations in order to be able to see that in Gokhale we find one who concedes the wisdom of "right kind of Protection" in theory, but for 'practical' reasons, becomes a Free Trader whereas in the generality of cases it is the other way about.[24]

Sir Dinshaw Wacha on the other hand believed that Indian exports were surplus products, that "India owes its prosperity to-day entirely to free trade and nothing else." But even this "convinced advocate of Free Trade" concedes that "Some protection is required for old industries to be revived or for new industries to be started."[25]

The academic economists not only clarified these issues further but were at pains to show that Indian protectionism was not blind; while J. N. Sarkar in his Economies of British India had contended that "no case has been made out in favour of protection in India at present."

IV. *1919—1930.* We now turn to periods which are not only very recent but are those in which there have been an increasing number of dissertations on our subject.[26] Instead of recalling the expositions of the various writers we would concentrate our attention on two other points, (*i*) how these writers continue the tradition of Indian thought

[23] We may suggest to those readers of B. P. Adarkar's *Indian Fiscal Policy* who agree with him that these are prophetic words! Then Gokhale's weight of authority would be thrown in the opposite scale!

[24] Gokhale too spoke of Free Trade as a noble ideal which could "no longer prevail universally at present than any other ideal for instance the brotherhood of man."

[25] See his *Four Papers on Economics and Statistics.*

[26] The most prominent works being those of P. N. Bannerjee, V. G. Kale, K. T. Shah, C. N. Vakil and J. C. Coyajee during this period.

surveyed in the preceding paragraphs and (*ii*) how this constitutes an advance in the fiscal doctrine.

Thus though we would begin with the Report of the Fiscal Commission, rather than examining their arguments about the incommensurate industrial development of India or the unstable economics of a country too greatly dependent upon agriculture or a more economic employment of labour-supply, we would note that the whole chapter on the Importance of Industrial Development (Chapter IV) is a vindication of the arguments of the Indian writers of the XIX and early XX centuries.[27] We would also note that when the Commission advocated protection on the ground of "strong feeling" in its favour (because of India's industrial past, the examples of other countries, recent developments like the reversion of U. K. to protection), or Pigou's authority[28] or on grounds of willing sacrifice[29] and minimization of the burden of the absolute need for the creation of confidence and security as emphasised by such witnesses as Mr. Shakespeare and Capt. E. V. Sassoon or the "weighty conclusion" of Pigou about collection crutches[30] one feels that thae Fiscal Autonomy Convention despite its limitations did perform a signal service in the realm of Indian economic thought, *viz.*, that the past had not been lived in vain.

This period is largely taken up by the controversy raised by the Scheme of Discriminating Protection, in fact it begins with what we may venture to call a heroic attempt

[27] "We have no hesitation in holding that such a development (of Indian industries) would be very much to the advantage of the country as a whole, creating new sources of wealth, encouraging accumulation of capital, enlarging public revenues, providing more profitable employment for labour, reducing the excessive dependence of the country on the unstable profits of agriculture and finally stimulating the national life and developing the national character." *Report*, p. 30

[28] See Pigou cited on p. 36.

[29] List quoted on p. 37.

[30] Citing Pigou here they say: "The words ought almost have been written with direct reference to the conditions of India and the case for protection in India can hardly be stated better." P. 41.

of the Majority to improve upon the terminology of the fiscal doctrine[31] by making capital out of Lala Harkison Lal's gift to the Commission. On the one hand it has been claimed that the Majority has summed its opinions in a memorable and memorisable phrase which is in itself a contribution to the nomenclature of fiscal controversy;[32] while on the other it has been dubbed as meaningless, tautologous and misleading—"a vitiated formula" even implying "discrimination" in favour of Great Britain.

Prof. J. C. (now Sir Jehangir) Coyajee—a signatory to the Majority Report—has given us an elaborate analysis of the implications of their stand and recommendations;[33] and it remains even now an illuminating doctrinaire justification of Discriminating Protection. The Indian economic thought during this period, therefore, has concerned itself with systematic criticism of the Majority's recommendations and its scheme of protection—in particular para 97 of the Report. But it went much further too. It entered upon a searching enquiry into the machinery and procedure for protection recommended by the Commission, and adopted by the Government; into the implications of the three conditions for the grant of protection (in para 97 of the *Report*), into significance of the probable burden to be inflicted on the consumer and the study of other forms of "economic protectionism." The writers were at pains to show that tariff

[31] Coyajee claims for the Report that "in two directions at least its spirit and terminology mark a distinct advance in the history of tariff controversy," p. 23 and further "So united were the suffrages in favour of that type of protection that the dissenting gentlemen agreed to the merits of the formula in spite of their strong reluctance to admit that protection could be subject to any qualifications and limitations."

[32] *Ibid.*, p. 23.

[33] *The Indian Fiscal Problem.* The author's enthusiasm seems to have overwhelmed him with the result that in the otherwise scholarly exposition no weight at all is attached to the arguments of the critics. Perhaps that is why the work is often taken as a piece of special pleading. It served to confirm the criticism that the Majority approached the problem with a Free Trade bias.

protection would be no panacea for industrial ills.[34] The Indian economists' arguments were now powerfully reinforced by those of economic nationalism and of safeguarding and "Key" industries that guided most of the countries' fiscal policy after the War (including U. K. itself).

Together with these were also advanced arguments even on non-economic grounds for the ideal of self-sufficiency.[35] Mention must also be made of the Reports of the Tariff Board during this period that have not only elucidated very greatly the problem and policy of Discriminating Protection, but have largely succeeded in avoiding some pitfalls of protection as seen in the examples of other countries like U.S.A., Canada and France; and that they have set up a high standard of tariff making. We shall refer to their endeavour to estimate the burden of the various protective duties in the next section. Here we may note in passing that with the adoption of protection two more problems came to the fore, *viz.*, Imperial Preference and Foreign Capital.

[34] It was pointed out even before the Fiscal Commission "I do not believe that any particular tariff-policy can by itself bring about the economic modernization of a country, which before the erection of a tariff-wall is in a medieval stage of development." R. M. Joshi quoted by Coyajee, p. 34; see also K. T. Shah, pp. 258—263.

[35] See P. A. Wadia, "The True Basis of Protection in India" (*Economic Journal*, June, 1924).

Also Vera Anstey, *Economic Development of India*, p. 362: "In India the passionate demand for protection has clearly been based on the almost unanimous desire to promote self-sufficiency and all-round development."

Also *Wealth of India*, by Wadia and Joshi, p. 328. Compare also "Economic self-sufficiency is no new phenomenon. The tendency to national exclusiveness is as old as human nature and it by no means calls for unrestricted condemnation." J. G. Smith: Presidential Address to the F Section of the British Association, 1935, which is a lucid analysis of Economic Nationalism. We cite this only for appreciating the unbridled zeal of critics like Mr. B. N. Adarkar quoted in the next section: Is it a cry of desperation for economic security?

But even in the din of this controversy the voice of the Free Trader was not drowned. Thus Mr. Pillai[36] while conceding that "the theoretical basis of the scheme (of the Fiscal Commission) is unexceptionable," would ask what about the dangers of protection? Would the eventual gain counterbalance the immediate loss? and proceeds "The Fiscal Commission, while aware of all these difficulties makes no attempt to answer them." He reiterates Gokhale's arguments that protection would be exploited by the foreign capitalist and concludes that "India is not yet sufficiently developed to reap the full fruits of a policy of protection" and that "protection is not the only path to industrial development."[37]

V. *1930—1941.* With the policy of Discriminating Protection well underway there naturally came forth a series of studies surveying its achievements, shortcomings, and anticipated or apprehended developments, showing its failure to come up to the expectations or failure as evidence of its inherent weakness. Secondly, this is a period in which after the Great Depression there was not only an intensification of economic nationalism (and a universalization of protection) but the reduction of tariff protection to the position of a part or a plank in the 'economic plan' or in the scheme for the control of international trade. Because of the forces unleashed by the economic crisis there were far-reaching developments in the trend of the foreign trade of various countries resulting in exchange control and bilateralism. For obvious reasons we shall have to pass over these lightly and confine ourselves to tariff protection only. Thus this period almost opens with the controversy raised by the

[36] *Economic conditions in India*, p. 320, *et seq.*: He makes some very interesting statements. " The history of *India's earlier deviations into the path of protection* (italics ours) is not such as to inspire us with confidence in its ultimate success" and gives the instance of countervailing duties on sugar in a period when the Finance Member had protested lest he would be understood to have made a Swadeshi Budget!

[37] *Ibid.*, p. 328. It will be seen that similar arguments about the unpreparedness of India were used a generation ago.

"reciprocal preferences" of the Ottawa Agreement[38] and the Indo-Japanese trade agreement, but we will have to confine ourselves to the main theme and largely to the treatment adopted in the preceding section.[39]

The most notable development during the period was a frontal attack on the protectionist policy. Two writers—H. L. Dey and B. N. Adarkar—with almost crusader's wrath assail the fundamentals of the protectionist's thesis and ask "how far are the assumptions of the protective policy justified?" One of them in fact begins with a homily that "the whole of economics is not politics, nor is the whole of politics economics" and they protest against what we may call the blood-transfusion from the poor agriculturist's body to that of the fattening of underserving industrialist.

Thus H. L. Dey starts with pointing out that the Indian tax system which is already regressive will be made more so by protective duties by "positively increasing these inequalities by transferring incomes . . . . to the favoured groups of entrepreneurs, investors and wage-earners".[40] Secondly, accelerated industrialization is no remedy against

[38] It will be noticed that we have had to avoid any detailed reference to the controversy about Imperial Preference from 1903, 1907, the Report of the Fiscal Commission, the Differential Duties in our Protective Tariff, the Ottawa Preferences and the Indo-Japanese and Indo-British Trade Agreements. We believe that the problem must be treated separately and that there is no dearth of literature on the subject even from our present point of view. Only recently has it been the theme of a fairly exhaustive survey *India and Imperial Preference* by B. K. Madan.

[39] The prominent works during this period are:—

V. G. Kale, (1) *Economics of Protection in India*, (2) *Problems of World-Economy*.

H. L. Dey, *The Indian Tariff Problem*.

B. N. Adarkar, *The Indian Tariff Policy*.

R. K. Mukerjee, *Economic Problems of Modern India*.

B. P. Adarkar, *The Indian Fiscal Policy*, and papers read at the Patna Conference.

[40] H. L. Dey, *The Indian Tariff Problem*, p. 26.

famines; protection will not increase savings and capital resources but will only weaken the national character.[41]

Again, the arguments of the Fiscal Commission in favour of a policy of rapid industrialization with the aid of protective tariff were mostly "one-sided, superficial and at best of a limited degree of application,"[42] for what is the place of industrialization in national policy? what is the most economical and most effective method of achieving industrial progress through rationalization? Is it protection? He therefore undertakes an examination of the three industries, Cotton, Steel and Sugar, to show that the competitive weakness of Indian industries is largely due to grave defects "in structure and principles of business organization inadequate and unsatisfactory technical equipment both in personnel and machinery, the failure to adopt modern methods of marketing and last but not least over-capitalization,"[43] for all of which the remedy is internal planning and reconstruction rather than an appeal to the Commerce Department and cajoling the Government or the public by all means in their power. Again, 'The principal function of the state' "is and must remain the provision of precise, complete and up-to-date information concerning raw material supplies, output, stocks, prices, wages, employment, etc., so that production may be effectively coordinated and supply adjusted to demand" both from national and international point of view.[44] It is indeed a little refreshing and comforting to read all the extolling of Laissez-faire in the years in which we heard a lot of what we may call, panic planning

[41] When these Free Traders display such grandiose deductions, the protectionist may also turn round and ask whether "we are not once again confronted with the old, crude, and dangerous arguments that have been trotted out again and again for over a century" (the words are Dr. Dey's, p. 28); see also our footnote further on about the picture of the Free Trader and the Protectionist.

[42] *Ibid.*, p. 38.

[43] *Ibid.*, p. 283.

[44] *Ibid.*, pp. 284-285.

and in which Pigou[45] was clearing up the debris of classical economics at London as regards the rôle of the state in economic life.

Further, the Tariff Board do not seem to have sufficiently realized the cumulative effect of the protective import duties in their reaction on *agricultural and export industries* (Italics ours) especially as regards the cumulative burden and therefore there are grave dangers of "hasty and ill-considered procedure in tariff-making;" and "the principle of discrimination in protection . . . . should not merely remain as a largely empty phrase as hitherto."[46] Hence a plea for "a more thorough and adequate economic analysis" and for further and more precise and reliable data that must be supplied to the Tariff Board. Finally industrialization is only one of the many avenues of economic and social progress (agriculture, mining, transport, banking and foreign trade) and so must be weighed in balance against "these urgent items of social development such as universal education, public health" etc.

We need not pursue this argument further as we shall presently revert to this author who himself has some more interesting things to note in respect of the above assertions. But we may refer to one point in the Tariff Board's work which evoked his unreserved commendation, *viz.*, the recommendation of the differential duties. Thus for instance while on the differential duties on British products recommended by the Tariff Board on Steel (1927) he says, "The Tariff Board, however, as a body of expert advisers rightly decided not to allow its conclusions to be influenced by non-economic considerations and recommended the adoption of the differential duties" which despite "the strong opposition

[45] See Pigou's Lecture at the London School (printed in *Economics in Practice*), *viz.*, State action and laissez-faire. For this and the next few arguments I may again invite the reader's attention to the pictures of the Protectionist and Free Trader we have endeavoured to draw in the opening para of this paper.

[46] *Ibid.*, p. 286 and 287. We shall presently refer to this same writer who a few years later pays a very high tribute to the work of the Indian Tariff Board.

by the members of the Nationalist Party" were embodied in the Act.[47]

Mr. B. N. Adarkar's attack is equally thoroughgoing though it is confined to some of the most recent arguments about the efficacy of tariff especially during a trade depression.[48] Thus he begins with an extremely interesting dissension about Mr. Keynes', Mr. Harrod's and Mr. Barrett Whale's argument for protection as a cure for unemployment. He concedes that a country may have use for tariffs in abnormal circumstances as a desperate remedy and "in the combination of some special circumstances." But "a country will not be justified in going for tariffs till other remedies for unemployment have been tried." Again "Tariff makers while seeking to advance the economic interests of any one country create forces that prove inimical to the economic well-being of the whole world." Hence despite Mr. Keynes' and others' limited concession to protective tariffs, they "should be universally condemned."[49] Indeed the salvation of the world from "the present economic debacle lie not in tariffs but in the simultaneous pursuit by several countries of a vigorous programme of stimulating home investment."[50] He then examines the argument about accelerated industrial development and he also comes to the same conclusion as Dr. Dey does, *viz.*, "the march towards the goal of industrialization must of necessity be very slow" and so "a country is not really ripe for protection till all those social evils which eat into the vitals of the country and make its people chronically inefficient such as illiteracy and indebtedness"[51] . . . have been tried. "A confusion between

[47] Perhaps the reader would be reminded of Pigou's experience of being called "the great Cambridge economist" and a "mere economic theorist" for the same writing by a Prme Minister. See *Economics in Practice*, pp. 8—10.

[48] Cf. also B. P. Adarkar who comes to opposite conclusions after citing the same writers. *Indian Fiscal Policy*, pp. 9 *et seq.* and p. 22. Also P. J. Thomas, " A plan for Economic Recovery" *Indian Journal of Economics*, April, 1935, p. 451 *et seq.*

[49] *The Indian Tariff Policy*, pp. 44-45.

[50] *Ibid.*, pp. 46-47.

[51] *Ibid.*, p. 51.

the two objects rapid industrialization and protection with discrimination will lead to nothing less than a chaos in our fiscal policy."[52] He is not only severe with arguments for self-sufficiency, but also equally impatient with that of industrialization by means of protection—which is a chimerical proposition.[53] He also repeats the argument that protection so far has not led to any appreciable increase in the numbers employed in the industries and "such scope is extremely limited . . . out of all proportion to the probable growth of the Indian population in future."[54] Finally he also advances the argument about the loss of customs revenue.

Let us now revert to Dr. Dey who returns to the problem of protection.[55] Protection now is part of the general economic problem of the distribution of scarce means for achieving given ends. There "is a deep-rooted notion owing its origin to the nationalist writers of the XIX century that all these attributes (education, public health, transport, banking etc.) are the exclusive virtues of industrial development" and so they think that for this development no cost is too great. But if we do not weigh the advantages of protection against the disadvantages of fresh burdens, we would

[52] P. 139.

[53] One may be excused for asserting that it is rather strange that this writer who hastens to quote from one part of "The Industrial Policy of India" with some glee has left another part of the same work untouched, viz., Appendix III especially when he seems to be greatly interested in the problem of measuring the burden of the tariff.

[54] *Ibid.*, pp. 62—64. We have already noted that this point was stressed before the Fiscal Commission, *e.g.*, by Lala Harkison Lal. See Coyajee's *Indian Fiscal Problem*, p. 71. Also G. Slater's foreword to Mr. Pillai's book and H. L. Dey, *Indian Tariff Problem*, pp. 30-31. Mr. B. P. Adarkar, too, takes this up but arrives at a different conclusion after citing these very writers " to base conclusions as to the possibilities of unemployment on the actualities of to-day is not only wrong logic but bad economics." He blames Discriminating Protection for having been too discriminatory. *Indian Fiscal Policy*, pp. 16—20.

[55] Ch. XVI, in R. K. Mukerjee's *Economic Problems of Modern India*.

be "sacrificing the end for the means." Though he repeats some of his former arguments about effects on the real income of the people, on taxation and the danger of political pressure and transference of wealth, his views on Discriminating Protection have undergone a remarkable change. "India is the first country in the world to attempt this novel and exceedingly difficult task of enunciating certain principles and devising an elaborate technique, which are collectively called "discriminating protection." He commends the method of the Tariff Board in applying the principle of comparative costs,[56] and as for the working of the principle "it must be clear that the system of discriminating protection as devised and administered in India represents the best tariff making practice attempted in any part of the world." With this development of this writer's attitude it will be of interest to note his plan for the future. "A sound policy of protection" forming a part of "a comprehensive plan of national reconstruction"[57] should be followed by "a suitable programme" and a correct procedure of tariff making which would fit in with "an appropriate national policy." Within the limits of this policy of protection the Tariff Board should decide between the rival claims of the different industries and the requisite doze of protection to be administered to selected industries.[58] The Tariff Board should arrive at an estimate of the burden thus imposed on the community (he would prefer bounties to import duties) and "visualize the time limit within which the protected industries would be in a position to dispense with protection."[59]

[56] This will remind the reader of Coyajee's defence of Discriminating Protection on the same principle. *Indian Fiscal Problem*, especially, pp. 30, 31.

[57] The reader will note that the writer's views about the function of the state too have undergone a change.

[58] He compares this procedure to that of budget-making.

[59] He also points out that while protectionists emphasise the reduction in the native cost of production of young industries—after protection is given—they ignore the possibility of a corresponding reduction in foreign cost of production of the same article. He also stresses the need for an Annual Review by the Tariff Board.

The latest to enter the lists is Mr. B. P. Adarkar with his *The Indian Fiscal Policy*. It is a comprehensive survey of the fiscal problem. We shall, obviously, be able to note only a few features of this illuminating study. He notices "a mental reservation against some academic literature on the subject" and that "the antiprotectionist feeling in the country is steadily gaining ground both because it is being assiduously nursed by official support and because the exigencies of the times would seem to assist it in some ways." He believes that "the fiscal problem is wholly economic and must be tackled in none but a scientific spirit."[60] He therefore starts with an attempt at a restatement of the fiscal theory answering the general objections of free traders like those about employment, regressive taxation, loss of revenue and danger of vested interests. But if the two previous authors frontally attacked the indiscriminate protection, here is a full-blooded drive against Discriminating Protection. He does not leave out either the political or the constitutional aspects;[61] for the fiscal problem in India is two-fold: (i) India has yet to attain real Fiscal Autonomy and (ii) there is the problem of determination of a correct policy for the country. "Here there cannot be any room for doubt that the present system of Discriminating Protection has been disappointingly slow and ineffective."[62] It has been "of a piecemeal variety" which "hardly meets the requirements of her industries, which if we are all honest about it, are undoubtedly shouting for a rapid growth."[63] He undertakes an exhaustive analysis of all the industries granted or refused protection and of the method of enquiry adopted by the Tariff Boards. His conclusion is that the Indian system "has been . . . . largely of the safeguarding variety, which any sensible and responsible Government would have adopted in any modern country for the preser-

[60] Pp. 3-4.

[61] In a previous footnote we have already indicated that this work is likely to cause some flutterings in the orthodox especially British circles.

[62] P. ix.

[63] P. 26.

vation of its industrial structure from economic blizzards and from the predatory activities of international combines actively aided and abetted by their own governments."[64] Thus to take the most important example of the protected industries: after examining the economic background during the whole period (which witnessed systematic dumping, depreciation of continental currencies, faulty Indian monetary policy and general depression) he opines "There is hardly any margin left in all this for the "infant industry" type of protection which I think the steel industry—unlike, *e.g.*, sugar industry—never really received."[65] From an analysis of the enquiries made by the Tariff Board and the procedure laid down by Government he questions even the bonafides of the latter as to their intention to protect Indian industries, while the triple formula of the Discriminating Protection "in practice has done more harm than good to the struggling Indian industries, especially the minor industries because it has stood in the way of straightforward protection."[66] But he too has a word of praise for the work of the Tariff Board which "has shown a highly scientific spirit and scrutinized the various elements of costs with remarkable thoroughness."[67]

Finally there is one other development during this last period which deserves a special mention. All important works during this period have dealt with the problem of the burden of various protective duties. We have already commented on the high standard of tariff-making set by the Indian Tariff Boards and in fact it was the Tariff Board on Steel (1924) which while examining the question of the probable burden on the consumer laid down a method for the purpose. During this period the question has been pursued by the writers we have already mentioned in arguing out their cases better.[68] Thus Dr. Dey estimated

[64] Pp. 461-462.

[65] Pp. 106-107.

[66] P. 486.

[67] P. 495, also p. 487.

[68] Reference may be made to my article in the *Journal of the Indian Merchants' Chamber* (July, 1940), in which these methods

that the total burden of the duty on the consumers of cotton goods in India was over Rs. 15 crores per annum.[69] Mr. B. N. Adarkar applies a method similar to that of the Australian Tariff Board in order to estimate the burden on the sugar Tariff.[70] Recently the Department of the Economic Advisor has attempted "in a broad manner" to ascertain the tax-burden of the Indian Tariff.[71] But each of these methods has limitations of its own. If with more elaborate and accurate data than are at present available, a more comprehensive method for measuring the costs of protection is made use of the fiscal controversy instead of remaining "an impenetrable jungle" baffling solution will have been, we would venture to say, considerably narrowed down in its scope and we might see the wood and the trees much more clearly.

Conclusion.

We are thus able to see even in this rapid survey of Indian economic thought[72] that the fiscal controversy in India as much as elsewhere has been both long and bitter; and that the cause of free trade has never lost a champion even in this (otherwise) benighted land. We have seen that most free traders while admitting the validity of the infant industry argument have stoutly refused to admit the "infant country"[73] one. There has undoubtedly been a strong

have been examined and to Appendix III of *The Industrial Policy of India*, already adverted to.

[69] For the method adopted see pp. 83—90, *The Indian Tariff Problem*.

[70] B. N. Adarkar . . . ., pp. 70—72.

[71] Studies in Indian Economics (First Series), *The Burden of the Indian Tariff*, pp. 3-4.

Mr. B. P. Adarkar, too, devotes a chapter to " The Burden of Protection."

[72] We take this opportunity of pointing out if mention has not been properly made of some authors it is only due to limitations of space and not at all to any intention of ignoring their contributions.

[73] Bertil Ohlin's phrase summarizing in a better way than before List's argument for productive powers and the one for a mature and well-rounded economic development.

current of protectionism—to no small extent fed by the doings and misdoings of Government[74]—and deriving largely its inspirational strength from the example of other countries.[75] But more interesting than these points is the vindication in the realm of theory of the more important of the protectionists' arguments. Thus to-day besides the two arguments aforesaid we have the Schüller argument about certain gains from protection if the cost structure of the industry be such that a slight rise would be followed by a considerable expansion in production and the final increase in price will not be as high as apprehended—this gain to be offset against the sacrifices. We have again the Wicksell argument about comparative cost advantage in industry and the quality of foreign trade determining the degree of gain therefrom. We have referred to the controversy about the unemployment argument but we may add one from the Macmillan Committee: "The fundamental argument for unrestricted Free Trade does not apply without qualification to an economic system which is neither in equilibrium nor in the sight of equilibrium . . . . But if this condition of full employment is neither fulfilled nor likely to be fulfilled for some time, then the position is entirely different since a tariff may bring about a net increase of production and not merely a diversion." Fourthly as we have remarked in the preceding section there has been an effort at "bridging the gulf"

[74] We have not commented on this topic in detail but remarks of an outside observer will be interesting:—

" The influence of Manchester capitalists is written large on Indian tariff history. They have been as anxious to preserve the Indian market for the benefit of British manufacturers, merchants, bankers and shippers as American capitalists have been to preserve the American market for themselves. To the demands of this influential group in British politics all governments have listened." *Capitalistic Enterprise in India*, by Buchanan, p. 465.

[75] " A governing group which understood its people and really cared for their welfare should make an effort to teach them better ways of earning a living. This the Government of Japan tried to do . . . while Indian craftsmen were literally starving, unemployed, Japanese of the same group were learning to operate machinery . . . . There have been anomalies in the Japanese protective system but it has *worked*." Buchanan, *op. cit.*, p. 471.

by an enquiry into what we may call the comparative costs of protection.

Further, thanks to the "watchfulness" of Government some pitfalls of protectionist policy have been avoided and one could almost brandish the achievement of the Steel Industry when the Tatas announced that barring unforeseen developments they would be fully prepared to meet all contingencies including the termination of protection.[76] At least one (important) infant had come of age! Finally as we have already indicated the tariff for a variety of reasons has, elsewhere, no longer remained the main instrument of protection. In India though this is not yet the case our trade agreements are already bringing other problems to the fore.

[76] Chairman's speech at the Annual General Meeting of the Tata Iron and Steel Co., Ltd., 1937 ad 1938.

THE GANDHIAN APPROACH TO INDIAN ECONOMICS

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I

When the history of economic thought in India in recent times comes to be written, Gandhiji's name will certainly occupy a place of honour in it. It does not matter in this context whether we call Gandhiji an economist or not,—that is partly at any rate a question of definition of terms. The fact remains that he has influenced profoundly the attitude of our people to economic questions and he has exercised a significant, though not often acknowledged, influence on the intelligentsia of the country and also, though rather slowly, on our economists. This will be clear to anyone who compares the writings of Indian economists, say, only about a decade ago with their writings now. The distinctly important place accorded by Indian economists now to small and medium-sized industries in India's economy can largely be accounted for by the influence of Gandhian thought, for Western economic science from which most of our economic precepts derive does not attach any importance to such industries. The first reaction of the academic economist brought up in the traditions of Adam Smith and Ricardo to the advocacy of khaddar and village industries could not be expected to be favourable, and if, in actual fact, that reaction was not vigorously hostile, it was probably because these medieval ideas were thought of as not having potency enough for good or ill to deserve serious attention. Thus, Gandhiji was put down as a mystic, a reactionary and a saint dabbling in economics and politics without knowing his limitations. Yet few, if any, of our economists today would, I think, question seriously the necessity of attempting a precise formulation of Gandhiji's economic ideas and of submitting them to scientific examination so as to find out

how far they present an acceptable solution of India's economic problem. This much at any rate is certain: whether it is possible or not to accept Gandhian Economics—if the term may be permitted—in its entirety, it offers a solution deserving of serious consideration. And this for various reasons. Firstly, there is the fact of Gandhiji's unique personality and his tremendous hold on the public mind. But more important than that, Gandhiji's approach to our economic problem is also unique. In one sense, it is orthodox and traditional; in another sense, it is novel and even revolutionary. Moreover, although as a practical reformer Gandhiji has thought primarily in terms of immediate practicability, he has gradually developed what is definitely and distinctly a system of thought. Thus, Gandhism is not just a series of disjointed maxims of policy, or a catalogue of urgent reforms and remedial measures. There is a philosophy, an ideology, if we like, behind all the reforms it advocates, or, to put it differently, even as Capitalism and Socialism have their own fundamental assumptions, so, too, Gandhism has its own fundamental assumptions. The Gandhian system of economic thought cannot be adequately appraised merely in terms of current economic theory which rests on certain limited assumptions. It is a challenge to those assumptions themselves. This is surely a matter of profound importance for the economic theorist as distinct from the economic reformer or statesman. It is the purpose of this paper to bring out the fundamental assumptions underlying Gandhian Economics and to indicate, though briefly and therefore not quite satisfactorily, their significance from the point of view of economic planning in this country.

II

To begin with, there is, first of all, the concrete Gandhian programme of economic amelioration. Admittedly, it is not purely an economic programme. It is socio-economic or economic-political-religious in its nature. This will be clear from a mere glance at the thirteen points of the constructive programme he has placed before the

country.[1] The economic part of it is an attempt to tackle poverty where it is at its worst—in the villages.

What has the economist to say to this concrete programme? That programme may be summed up in one phrase—the Regeneration of the Village. Now, it will readily be admitted that there are three possible solutions to the Indian economic problem: (1) Socialism more or less along the lines of Soviet Russia, (2) reform along capitalistic or liberal lines and (3) the Gandhian solution. Let us review these briefly.

So far as the first alternative is concerned, the arguments against it seem overwhelming. The people in general have neither the will nor the power today to carry through such a revolutionary change as Socialism implies. It could only come by way of dictatorship, but then, from what we know of dictatorships, we can certainly say that the character of the ultimate outcome, whether it will be in the interests of the people at large or otherwise, will depend on the nature of the dictatorship that falls to our lot. Therefore, even if we raise no nice theoretical issues, that solution has to be ruled out at least for the immediate future. The second solution would be: consolidate land holdings, introduce better methods of cultivation, improve seed and manure, extend irrigation, cheapen transport, make sound finance available to the agriculturist, change the methods of agricultural marketing, remove the burden of old debts, reduce land revenue wherever possible and necessary, encourage agricultural research, provide free elementary education, subsidise technical schools, etc. This is what we may call the academic economists' solution of the problem of poverty in our villages. But, then, as Gandhiji himself pointed out in reviewing a solution along these lines, the question is: 'Who will bell the cat?' The academic economist assumes

[1] These thirteen points are: (1) Hindu-Muslim or communal unity, (2) removal of untouchability, (3) prohibition, (4) khadi, (5) other village industries, (6) new or basic education, (7) village sanitation, (8) adult education, (9) uplift of women, (10) education in hygiene and health, (11) propagation of Rashtrabhasha, (12) cultivating love of one's own language. (13) working for economic equality.—*Harijan*, 18th August, 1940.

that political power is in the hands of the people, he assumes the existence of a democratic form of Government, or at least that the policy of the Government is guided solely by considerations of the people's welfare. If the validity of this assumption is challenged, he simply stands aside, saying: "My task is over. I can say no more." In effect, therefore, although this alternative is not so remote from practical fulfilment as the first one mentioned above, it is rather distant. It does not provide the immediate next step. And so, we are left with the third alternative, the Gandhian solution—the Regeneration of the Village through voluntary effort. At this level of discussion the case for the same can be stated simply as follows:

(1) Any radical revision of our economic system in general or our land system in particular is unthinkable at the present juncture.

(2) Equally unthinkable at the same time is a policy of drift or indifference, for the problem of poverty in our villages is too acute to admit of any delay.

(3) The masses do not want charity in the shape of famine relief or unemployment relief. They want and must be given honest, hard work. The problem cannot therefore be solved by taxing the rich heavily and passing on the benefit to the poor by a suitable manipulation of taxation and public expenditure.

(4) The only solution, therefore, is voluntary sacrifice on the part of the consuming public. Mill products are cheaper in comparison with the products of our village artisans. To some extent the gap could be narrowed by means of improvements in the artisan's technique and skill. Some gap will, however, remain. Let the people decide, therefore, to undergo voluntary sacrifice in the shape of higher prices and deliberately prefer khaddar and village products, and the villages will once again hum with activity. New avenues of employment will be created for our village folk. They will get a new hope and a new ambition as they find their purchasing power increased.

(5) And, finally, even from the point of view of resources and technique available, the problem is not too difficult as only a small amount of capital will be needed.

The little technical skill necessary will easily be acquired, and as to labour power, there is no dearth of it.

III

Put this way, the logic of the case is irrefutable. The Gandhian programme appears simply as a case for voluntary protection of village industries in view of their 'national' or 'social' importance. So far it does not involve any challenge to the validity of currently accepted economic theory. Surely, a person who could devise such a solution would deserve to be ranked as no mean economist. The surprise is that it was given to a non-economist to state so clearly the implications of an immediately practicable programme. If an explanation of this may be ventured, it is that we have interpreted Indian Economics too narrowly. We tend to regard it as just an application of Western economic theory to Indian conditions with, of course, 'suitable modifications.' But these 'suitable modifications' are always introduced at a later stage, or put into a separate, sort of parenthetical chapter, without raising any questions as to the soundness or otherwise of the basic assumptions of modern economic science as it has come to us from the West.

But, to proceed. To Gandhiji and those who think with him, what we have called the Gandhian solution is not just this Hobson's choice as we have made it out. For, it soon enlarges itself into a more ambitious scheme of long-range planning. It becomes the keynote of the policy of the future self-governing Indian State.

It is at this stage that the wider aspects of Gandhian philosophy come into prominence, and the appeal goes forth for a transvaluation of values. It is at this stage, then, that the validity of our traditional approach to Indian Economics is challenged. It would take us too far afield to review here the assumptions and postulates of modern economics as it is usually understood. These assumptions and postulates do not quite fit in even with the conditions in the West. We need not also discuss here whether there is such a thing as Indian economics as distinct from Western economics. That again, is, to a considerable extent, a question of terminology.

All it is sought to contend here is that the economist would do well to construct *several* conceptual models of the economic system, and not just confine himself to the analysis of one such model which has been adopted by thinkers in the West.

What, then, is the long-range Gandhian programme? Well, first of all, there is no sharp distinction between the short-range and the long-range programme in Gandhian Economics. One just dovetails into the other. It has, therefore, not been defined with anything like the precision which characterises the short-range programme. Its main constituents may, however, be stated as:—

(1) The principle of Swadeshi,

(2) the reduction of the use of machinery and large-scale production to the minimum,

(3) the principle of decentralised production, and

(4) the maintenance of equality in distribution.

Let us comment on these items *seriatim*. (1) The principle of Swadeshi requires each individual or group to depend for his or its sustenance mainly upon the immediate environment. Even as a tree, it is argued, must draw its sustenance from the soil underneath and the atmosphere roundabout, so must a community depend for its existence on the immediate environment. This does not mean isolation. The villager, says Gandhiji, must prefer the services of the village barber to one from the city, and if it is found desirable to import the art of the city barber, let the village barber be sent out to the city to learn the art. This principle of Swadeshi is a sort of axiom in Gandhian economics; it is put forward as a necessity of one's inner nature, as something, if one likes, which accords with the design of the universe. (2) The second item in the programme is the reduction of the use of machinery and large-scale production to a minimum. It is true that the earlier writings of Gandhiji reveal an uncompromising hostility to machinery. He said at one stage that the products of Bombay and Ahmedabad cotton mills are as much foreign goods as the

products of Lancashire, and therefore deserving of boycott. But in his later writings, the hostility has softened down. The charkha is 'a beautiful piece of machinery,' it is admitted, and if one could take as authentic a recent publication in Gujarati,—'Gandhi Vichara Dohan' by K. G. Mashruvala[2]—all Gandhiji now insists on is discrimination in regard to the introduction of machinery and labour—saving devices, especially when we know that our essential problem is not to abridge labour but to find employment for it. Machinery may be utilised where technical conditions demand it, for example, in the manufacture of watches, typewriters and surgical and other instruments or in certain public utility undertakings. Only the criterion should be not the profit to the private producer but the interests of the public, to be judged, I suppose, by a properly constituted authority. The point is that in the Gandhian scheme large-scale production is not the magic key to prosperity, it is in the capitalistic plan. It is *pis aller*. (3) The third constituent of the long-range Gandhian programme is decentralised production. This means production by the artisans in villages mainly with the help of labour power, but also, wherever possible and desirable, with the help of electric or other power. This is advocated on aesthetic and moral grounds, more or less along the lines of 'medievalist' thinkers. Politically, such a system is said to be more stable; "the charkha cannot be bombed." Economically, it allows less scope for the exploitation of labour. But its supreme merit lies in the fact that it prevents the emergence of wide disparities in income and style of living. (4) That brings us to the fourth constituent mentioned above—equality in distribution. This is, as the philosophers have always assured us, a vague term. Absolute equality is unattainable under any economic system. The system of decentralised production has the advantage that it distributes the product of enterprise fairly equally, because the capital employed is small, and the major item in cost is labour. Some inequality there will still remain, especially as even

[2] It may be mentioned here that Gandhiji himself has seen and approved of this version of his ideas.

the long-range Gandhian programme does not envisage a violent overthrow of the mills, factories and workshops which we have already built up during the last half-century or so. The fiscal system will surely deal with some of this inequality, but in the main, Gandhiji relies on his theory of trusteeship of the rich in the interests of the poor, on the transvaluation of values that he asks for.

IV

This is a brief outline of the long-range Gandhian programme. It would be rash to say that it is altogether a sound programme. There is definitely a certain vagueness about it. The critical will easily discover many points in it which demand further elucidation and a great deal of critical examination before any final verdict could be given. To mention only one point, for instance. To what extent is the criterion of market price to be retained? Is it contended that the 'social marginal net product' of village industries is much greater than 'the private net product' indicated by the competitive price for the goods thus made, or is it maintained that the price index is no measure at all of costs in the real sense? One gets no precise statement on this point in the whole range of Gandhian literature. Many more questions of the same kind may be raised. What is to be the scope for foreign trade in India's economic arrangements under the Swadeshi principle? Along what lines is the localisation of industries to be decided, and by whom? Is labour to be mobile or otherwise? To what extent is the principle of consumers' sovereignty to be retained? To such questions Gandhian economics does not seem to give any clear answers.

The purpose of this paper is, however, the comparatively narrow one of indicating the significance of the Gandhian approach. That lies in the fundamental assumptions underlying the Gandhian scheme. They may be stated briefly as follows:

(1) The average individual is not particular about 'maximising profit.' He desires to get a competence and a small surplus for emergencies. He would undoubtedly like

to 'get on' in life, but that is not the same thing as the all-pervading profit motive which is generally postulated as the starting point and the very essence of all economic endeavour.

(2) While poverty amounting to a denial of certain minimum needs is degrading and dehumanising, the quest for an ever-rising standard of life is also equally so. A *voluntary* curtailment of wants is more indicative of progress than a desire for unlimited accumulation.

(3) Cooperation is a more important principle of life than competition, and hence a great deal of work could be obtained from individuals or groups by emphasising incentives other than that of private gain.

(4) Labour is not necessarily a discommodity, a disutility, to be always minimised. It is, within limits, a life-giving force. Economic betterment is thus not synonymous with the multiplication of labour-saving devices.

(5) Every individual has within him the potentialities of growth. These could be brought out by providing him with suitable work and also a certain minimum command over goods and services.

(6) Too much dependence on the State cramps individuality. It is dangerous inasmuch as centralisation of power is often liable to be abused.

Undoubtedly, these are novel assumptions. Some of the difficulties one encounters in appreciating Gandhian economics are due to the failure to take into account the divergence of these assumptions from the ones we are accustomed to. Whether even on these assumptions the Gandhian system of thought is logically water-tight is a question which needs special and detailed examination. The point, however, is that every system of economic thought does start with certain basic assumptions or postulates, which reflect, after all, the accepted view of the 'good life.' The choice between one economic system and another is thus a choice between two ways of life or between two views of what the 'good life' means. One has in this connection only to reflect on the fact that in spite of all protests by the economist to the contrary, the plain man takes the economist's assumptions as partly a description of actual human

behaviour and partly also as an indication of what that behaviour should be like. The 'purest' of 'pure' economists cannot deny that the differences between such basic postulates is the key to the understanding of the differces between, say, Capitalism and Socialism, or between Socialism and Gandhism. It follows from this that if Indian Economics is to come into its own as a distinct body of thought, it must seek to build upon new assumptions, possibly assumptions along the Gandhian lines. No constructive or original system can be built up on foundations taken over from Western thought, even if we attempt at a later stage to introduce modifications 'to suit our conditions.' If the Gandhian system of thought contains within itself the germs of this new approach, as is suggested here, it must be assigned a prominent place in the history of the development of the discipline we call Indian Economics. The acceptance of the Gandhian approach to the Indian economic problem may thus be said to represent a genuine blossoming forth of the Ranade tradition.

SUMMARY

Gandhiji's name will occupy an important place in the history of the development of economic thought in India, for he has given us not only an immediately practicable programme of economic reconstruction, but also a long-range programme. The immediate programme concentrating on khaddar and the revival of village industries is then compared with socialism as well as with reform along capitalistic or liberal lines. It is argued that this programme would be acceptable to economists inasmuch as it does not challenge the fundamentals of currently accepted economic theory. The long-range programme is more or less along the lines of the short-range programme, but it is intimately connected with Gandhiji's social philosophy, in terms of which alone it can be appraised. The main constituents of that programme are briefly outlined, and it is pointed out that they raise deeper issues regarding the appropriate assumptions and postulates of Indian Economics. The main assumptions of Gandhian Economics are stated and it is submitted that they accord more with the facts of Indian life. They, therefore, provide a more reliable and probably more fruitful approach to the Indian Economic problem. The Indian economist must construct his own conceptual model of the economic system along these lines, and analyse its working. That way lies the fulfilment of the Ranade tradition of thought.

ECONOMIC ORGANISATION IN ANCIENT INDIA

BY

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Introduction.

Among the leaders of the Indian Nationalist movement which swept over India during the last quarter of nineteenth century, Justice Ranade—whose centenary the Indian Economic Association is celebrating—takes his place easily in the front rank. For, he embodied in himself that Hindu genius for a cosmic view of life which has been our heritage even from the earliest times. Justice Ranade was not only an eminent jurist, but also a brilliant essayist, a great statesman, a genuine national economist and a sincere social reformer. In his life, he showed the vital importance of organised activity which was comprehensive enough to include almost every department of human endeavour. An attempt is made in this paper to show how deeply the Ancient Hindus appreciated the necessity for such a comprehensive group-organisations as the Samgha or Samūha achieve success in the ordinary business of life.

There is no doubt that they had attained a high stage of development in the field of organised activity. Even from the early Vedic period, the Hindu genius for co-operative enterprise had exhibited itself as much in matters secular as in matters religious. Apart from such comprehensive group-organisations as the Saṁgha or Samūha which merely denoted large public associations or "group persons," there were other special institutions for social, political, and economic purposes. For instance, the Kula was a social group, meaning an assembly of kinsmen, relations or friends. The term Pūga was more generic and meant a Samūha of Kulas or families. Then there was the Gaṇa which definitely denoted a political combination, like

a republic, in later literature. Finally, the economic institution called, the Śreṇi, was an association of persons following a common trade or craft, whether they belonged to the same or different castes. Śreṇi was therefore a sub-division of Pūga; and Pūga and other associations were species of Saṁgha which was any group of persons for common aims and purposes. The Ancient Hindus thus clearly recognised the fact that it was by collective and joint effort that they could acquire and accumulate wealth; and co-operative enterprise, according to Dr. Majumdar, assumed great importance earlier in the economic field than in the political or religious spheres. (Dr. Majumdar, *Corporate Life in Ancient India*, p. 13.)

Historical Summary.

The dim beginnings of organised economic activity in India are to be found in the Védic period (about 800 B. C.). In the Rigveda, for instance, the term Pāṇi occurs several times. It is derived from the root Pāṇ 'to barter' which indicates a relation to a merchant or trader. Now, the Gods are invoked in a certain hymn to fight the Pāṇis; and the fights with the Pāṇis according to Ludwig are "to be explained by their having been original traders who went in caravans—as in Arabia and North Africa—prepared to fight, if need be, to protect their goods against attacks which the Aryans would naturally deem quite justified." (Ludwig, *The Rig Veda*, Vol. I., p. 471.) Thus, there must have been a corporation of traders, strong enough to fight their opponents and defy them. Again, the use of the words Śreshti and Gaṇa in Védic literature points to the existence of guilds even in those early times.

These nebulous guild organisations of the Védic period took a definite shape in the Jāṭaka period (about seventh century B. C.). Men with similar occupations formed themselves into separate organisations or guilds with definite rules to guide them. Nearly all the branches of industry and trade appear to have had their own guilds. Dr. Majumdar gives a comprehensive list of such guilds which includes a wide range of workers in different departments of economic activity. For instance there were guilds

amongst artisans such as workers in metal, workers in stone, leather workers, ivory workers, weavers, potters and jewellers, dyers, painters and braziers, fishermen, herdsmen and cultivators, butchers and barbers, merchants and money-lenders. Even robbers had formed themselves into group associations, as a counterpart of which, there were guilds of forest police to put down the depredations of the former. In this period again, a clear difference in organisation arose between traders and merchants on the one side and the artisans on the other. As regards the former, though hereditary families pursuing certain branches of trade formed themselves into a corporation with a Jeṭṭhaka (alderman) at its head, yet there is no evidence in the Jātakas to show that there was a highly developed organisation among them. But in the case of the artisans, the position was very different. Here the hereditary feature of the occupation was more marked than in the case of traders and merchants; the son had to be apprenticed to the craft of his father from his early youth and the manual skill and talent for a particular industry became an inheritance from generation to generation. The Jātakas abound in references to the son of an artisan following the same occupation as that of his father.

In the next period, that of the early Dharma-Sūtras (5th century B.C. to 3rd century B.C.) the guilds enter on a further stage of their development. The corporations of artisans and traders are now recognised by the constitution as an important factor in the state and invested with the highly important power of making laws for themselves. They also exercised executive and judicial authority and were placed by the Dharma-Sūtras practically on the same footing as that of the king and other political institutions.

The guilds of Ancient India gained further status and influence in the period of the early Dharma-Śāstras (2nd century B.C. to 4th century A.D.) when the Śreṇi Dharma or 'usages of the guilds' were recognised as having the force of law. Numerous instructions are found in the Smṛitis laying down punishments—such as banishment from the realm and confiscation of property—to be meted out to those members who broke the rules of the guilds. Thus in this period not only was the guild recognised as a definite part of the State

fabric but its authority was upheld by the state and its prestige and status considerably enhanced by the definite announcement of the state policy to guarantee its successful existence by affording it all timely help and assistance.

The progress of the guilds is maintained in the next period represented by the later Dharma-Śāstras, like those of Narada and Bṛihaspati (5th to the 7th Century A.D.). In both, separate chapters are devoted to the title of law arising out of the transgression of compact (Samvid-Vyaṭikrama) Nārada explicitly states that "the king must maintain the usages of the guilds and corporations. Whatever be their laws, their (religious) duties, (the rules) regarding their attendance, and the (particular mode of) livelihood prescribed for them" (Nārada x. 2, 3). These injunctions of the Dharma-Śāstras show the high importance attached to the guild organisations as a powerful factor in society.

That the guild organisation continued to be in full vigour even to the last years of the Hindu period is evidenced by a number of records. An inscription at the Vaillabhaṭṭa-Svamin Temple at Gwalior refers to the organisation of Śreshtis and Śarthavāhas, etc., ruling the city of Gwalior in the year 877 A.D. This shows that the political importance of the old guild organisations remained undiminished to the very last in Ancient India. Further, there are numerous references in the South Indian inscriptions to the existence of guilds among traders and artisans down to a very late period. Thus we learn from a Kanarese inscription dated 1178 A.D. that the five hundred swamis of Ayyavóle, the Nānādéśis, the Seṭṭhis, etc., having assembled, granted a tax for the worship of the God Āhava-Malléśvara (Government Epigraphists' report 1919 p. 18, No. 216).

Genesis of the Guild Organisation.

Among the several types of social organisations in Ancient India, such as Kula, Pūga, Gaṇa and Śreṇi, the last one alone denoted particularly an economic corporation of tradesmen or artisans. Śreṇi is defined as a corporation of people belonging to the same or different caste, but follow-

ing the same trade or industry. In short it was a guild of artisans, craftsmen or traders.

According to Bṛihaspati "a compact formed among cultivators, artisans and others is called an agreement; such an agreement must be observed both for the prevention of danger (from enemies) and a proper discharge of duties (by the members). When a danger is apprehended from robbers and thieves, it is considered as a distress common to all; in such a case, the danger must be repelled by all, not by one man alone whoever he may be" (Bṛih. xvii 5-6). Thus it was fully realised that it was by co-operation and not by single effort that common dangers could be faced successfully and common purposes achieved satisfactorily. It was these two factors that originally led to the rise and growth of economic organisations, like the Śreṇis, in Ancient India.

But as Dr. Fick has pointed out there were two other forces operating at the same time, which particularly favoured the development of guilds. The one was the hereditary character of the professions and the other, the localisation of industries. Thus we read of a potter's son becoming a potter, a smith's son becoming a smith and so on. Combinations became specially easy when a profession became thus settled into a close corporation. Men following the same art or craft came to understand each other from their very infancy; and this early knowledge of one another enabled them to organise themselves for common purposes with little difficulty.

This tendency to combination was strengthened by the other factor, *viz.*, localisation of industry. Streets and particular quarters in a town and whole villages were inhabited by one and the same class of artisans. Thus in the Arthaśāstra of Kauṭilya, we read of "those who work by fire (*i.e.*, blacksmiths) shall all live together in a single locality" (Arth. II. 36). Again in another chapter, we are specially told of the construction of quarters for artisans following particular profession in the same locality. "To the west, artisans manufacturing worsted threads, bamboo mats, skins, armours, weapons and gloves . . . . shall have their dwellings. To the north, ironsmiths and artisans working in

precious stones . . . shall reside . . . . Families of workmen may in any other way be provided with sites befitting their occupation and field work" (Arth. II, 4). In the Jāṭakas, we read of villages such as the Mahavaḍḍakigāmo, consisting of a thousand families of dealers in wood (Jaṭ. II p. 18) and the Kammāragāmo, containing the same number of smith's dwellings (Jāṭ. III, p. 281).

Organisation and Constitution of the Guilds.

The first step in the formation of a new guild was to inspire mutual confidence among those who wanted to become members. And for this purpose, Bṛihaspati laid down certain formalities which had to be observed by them. The first formality was known as Kósha or "the ordeal by sacred libation." According to this the intending member had "to drink three mouthfuls of water, in which (an image of) the deity whom he holds sacred has been bathed and worshipped. If he should meet himself with any calamity within a week or a fortnight, (after having undergone this ordeal) it shall be regarded as a proof of his guilt (*i.e.*, unfitness for membership). Otherwise he would be considered to be pure and so worthy of becoming a member of the guild" (Sacred Books of the East. Vol. XXXIII, p. 116). The second formality was Lekhakriyā, which probably meant the drawing up of a convention or an agreement laying down rules and regulations for common guidance. The third one was known as Madhyastha, which might have reference to the well-known practice of securing guarantees for the faithful conduct of the members.

These conditions being fulfilled, the members set forth to frame a constitution for the conduct of their daily work. At the head of the executive machinery was a chief or president, assisted by two, three or five executive officers. According to Bṛihaspati, only honest persons, who are acquainted with the Vedas and their duty, who are able, self-controlled, sprung from noble families and skilled in every business, were to be appointed as executive officers. The president himself was to be an honest and efficient man (Bṛih. XVII. 9).

Considerable authority was exercised by these officers.

Thus, according to Bṛihaspati, "a member who failed wilfully to observe, his part of the agreement was liable to confiscation of his whole property and also to banishment from the town. The negligent as well as quarrelsome members were fined six nishkas or four suvarnas each." Further "a member who injures the joint-stock . . . . who causes dissensions or does violent acts or who is inimicably disposed towards the company, association or king shall be censured and reprimanded and then forsaken by the heads of the families and associations and also banished from the town" (Bṛihaspati XVII. 13—17).

As long as the executive officers in the exercise of their authority acted strictly in accordance with the rules prescribed by the constitution all their actions whether harsh or kind towards other people, had the approval of the king, for "they are declared to be the appointed managers (of their affairs)" (Sacred Books of the East, Vol. 33, p. 349). But if it could be proved that the executive officers were actuated by hatred in injuring a single member of the fellowship, the king could restrain them; and if they persisted in their conduct, he could punish them (Bṛih. XVII. 19). And if the whole association were guilty of an attempt to cheat the King of the share due to him, they could be compelled to pay eight times as much and punished if they took to flight (Bṛihaspati XVII. 21). Thus while honesty and efficiency were duly secured, an attempt was made at the same time to safeguard the freedom and security of individual members.

However, in spite of the exercise of high authority by the executive officers, the guilds were essentially democratic in their organisation. There was a house of assembly (Bṛih. XVII. 2) in which all the members of the guild met and discussed their affairs in common. Narada refers to regular rules being laid down for the attendance of members: and the king had to approve of them, whatever they might be (Narada X. 3). Again in a passage quoted by Kāṭyāyaṇa in his Vivādaraṭnākara, it is indicated that an executive officer who injures a person for having spoken something reasonable, or interrupts a speaker, or speaks something improper, is liable to punishment with 'Pūrva-

sāhasadaṇda (Biblothica Indica, p. 179). Thus, not only was the right of the assembly to punish its chiefs for improper conduct firmly established, but the idea of freedom of speech of the members was also clearly recognised. It was only when a conflict occurred that the king was requested to decide the case.

The rules of distribution of the profits of the guilds also bear out the democratic if not the socialistic nature of the guilds. Thus it is laid down by Bṛihaspati: "Whatever is obtained by a man, shall belong to all in common; whether it has been obtained a six month or a month ago, it shall be divided in due proportion or it shall be bestowed on the idiotic, the aged, the blind, to women or children, to afflicted or diseased persons, to persons having issue or the like (worthy persons); whatever is obtained or preserved by the members of a fellowship, or spent on behalf of the society or acquired through the king's favour, is common to all (members of the society)" (Bṛihaspati XVII. 22—24). Further, according to Miṭramiśra, the inclusion of new members into a guild or the exclusion of old members from it depended entirely on the general assembly of the guild. But once a person was admitted into the guild, the new members would at once share equally with others, the existing assets and liabilities of the guild and enjoy the fruits of its religious and charitable acts, while at the same time, the man excluded from the guild would at once cease to have any interest in them.

Apart from these minor features the most outstanding democratic element in the guild organisation was the ultimate responsibility of the executive officers to the general assembly of members. Miṭramiśra dwells on this aspect of guild organisation in detail. Indicating that verse 187 of the second chapter of Yājnavalkya refers to Mukhyās, he recites a text from Katyayana to illustrate the doctrine of "the right of the assembly to punish its chiefs." According to him, any of the executive officers, who was guilty of any heinous crime, who created dissensions or who destroyed the property of the association could be removed and the removal was only to be notified to, but not necessarily sanctioned by, the king (Víramitrōdaya, p. 428). However, as indicated by

Bṛihaspati when a powerful executive officer assumed a defiant attitude the matter was to be brought to the notice of the king, who "will decide it and bring him back to his duty" (Bṛihaspati XVII, 20).

Functions of the Guilds.

The Ancient Indian guilds were not merely confined to the development of the arts and crafts. They performed many other functions besides their own professional ones. They acted as courts of law, functioned as religious and social service clubs and very often served as local banks. They also cultivated the fine arts and became centres of culture and progress. And as Dr. Majumdar has pointed out, they even adopted the military profession and afforded security and protection to life and property in those troublous days. Thus the guilds of Ancient India were not merely an ornament but a truly powerful element in the social organisation of those times.

Soon after being organised in the form of an association the members of the guild were to draw up a document, which would embody all the main items of work to be undertaken by them. According to Bṛihaspati, the chief functions of the guilds were laid down thus: "The construction of a house of assembly, of a shed for (accommodating travellers with) water, a temple, a pool, a garden, relief to the helpless or poor people, a common path or defence shall be undertaken by us in proportionate shares" (Brih. XVII, 2). Thus the activity of the guilds was extended to a variety of objects of public utility. They also helped the poor to perform the "Saṁskāras" or sacrificial acts enjoined by the sacred texts. This aspect of guild activity is borne out by the evidence of the inscriptions. Thus the Junār inscription mentions the excavation of a cave and the construction of a cistern by a guild of corndealers. (Epigraphia Indica X Appendix). The Mandasor inscription refers to a guild of silk-weavers which built a magnificent temple of the Sun in 437 A.D. and repaired it again in 473-4 A.D. (Fleet: Gupta Inscriptions No. 18).

As has already been noticed, the guilds exercised considerable executive and judicial authority over its

members in matters affecting their own business. But according to Bṛhaspati they acted as ordinary courts of law as well. "Relatives, guilds, assemblies (of co-inhabitants) and other persons duly authorised by the king, should decide law-suits among them, excepting causes concerning violent crimes (Sāhasa); when a cause has not been (duly) investigated by (meetings of) kindred, it should be decided after due deliberation by guilds; when it has not been (duly) examined by guilds, it should be decided by assemblies of (co-inhabitants); and when it has not been (sufficiently) made out by such assemblies (it shall be tried) by appointed (judges)" Bṛih. I, 28, 30). Again, according to Narada, "Gatherings (Kula), corporations (Śreṇi) assemblies (Gaṇa), appointed by the king, and the king himself are invested with the power to decide law-suits" (Narada I, 7). The guild thus had a definite place in the gradation of the courts of the land and formed the second of the ordinary courts of justice, from each of which an appeal lay successively to the next higher ones.

One of the main functions of the guilds was the relief of the poor, the construction of public buildings and the maintenance of temples. For instance, an assembly of merchants from eighteen sub-divisions of seventy-nine districts decided to set apart a part of the income derived from merchandise for the repair of temples; $\frac{1}{4}$ panam on each bundle of female cloth, each podi of pepper, etc. (Government Epigraphists' Report, 1915, p. 104). One guild undertakes to feed Brahmins and another to maintain a fire offering out of the interest of the money deposited with them (Epigraphia Indica Vol. XII, p. 273).

Here we touch upon a very interesting aspect of the guilds' activity. The guilds very often used to undertake the functions of modern banks. There are a number of inscriptions of the period of the early Dharma-Śāstras (2nd Century B.C. to 4th Century A.D.) which record the investments of money with the guilds by rich people for special purposes. For instance an inscription of the year 120 A.D. at Nasik records that Ushavadāta, son-in-law of the Saka chief Nahapaṇa, invested a sum of three thousand karshapanas in two guilds for the benefit of Buddhist monks, two

thousand in a Weavers' guild, the rate of interest being one per cent per month, one thousand in another weavers' guild at the rate of three-fourth per cent per month. The interest was to be devoted for the purpose of supplying certain needs of the Buddhist monks (Epigraphia Indica Vol. VIII pp. 82—86). Again we read of another investment of a thousand karshapanas in a guild of potters an investment of two thousand karshapanas in the guild of Odayantrikas (probably workers manipulating hydraulic engines, water clocks, etc.), and an investment of five hundred karshapanas with a guild of oil-millers for the purpose of helping Buddhist monks (Rapson: Andra Coins C XXXIV). Besides, another guild receives an investment of the income of two fields for planting Karañja and banyan trees. (Ep. Ind. App. p. 132). Most of these endowments were perpetual which go to prove the efficiency of these organisations and the faith and confidence which the public had in them.

According to Dr. Majumdar, the guilds of Ancient India were also great military powers. Thus in Book IX, chapter 2, Kautilya includes "Śreṇivala" among the various classes of troops which the king might possess. It was sometimes used both for defensive and for offensive purposes; and when the enemy's army consisted mostly of this class of soldiers, the king had also to enlist them in his service. Again in Book V, Chapter 3, dealing with "Subsistence to Government Servants," the pay of "Śreṇimukhyas" (chiefs of guilds) is set down as equal to that of the chiefs of elephants, horses and chariots, followed with the remark that "the amount would suffice for having a good following in their own communities." Finally in Book VII, Chapter 1, the Śreṇi is classed along with soldiers as a means to repel the invasion of the enemy. Kautilya also refers to a class of Kshatriya guilds which lived upon both trade and war. The guilds continued the adoption of the military profession even in later periods. For instance, from the Mandasor Inscription, we learn that some members of the silk-weavers' guilds took to the army and these martial spirits valorous in battle "even to-day . . . effect by force the destruction of their enemies" (Fleet: Gupta Inscription No. 18). The Kshatriya Sreṇis of Kautilya seem to

have subsisted for a long time at least in Southern India, as is evidenced by the existence of Velaikkāras of the tenth and eleventh centuries A.D. This community consisted of various working classes and is frequently referred to in the Tanjore inscriptions of the Chola Kings as a part of the different regiments of their army. They later emigrated to Ceylon and were employed as mercenaries by the kings of that country (Government Epigraphists' Report 1918, p. 101).

The guilds were highly mobile bodies, capable of moving from place to place in response to the necessities of the situation. A very remarkable instance of such mobility is that furnished by the Mandasor Stone Inscription (Fleet: Gupta Inscriptions No. 18). It relates how a guild of silk-weavers migrated from Lāta to Dāśāpur, attracted by the virtues of the king of that place. Here many of them took to different pursuits. Some learnt archery and became good fighters, others adopted a religious life and discoursed on religious topics. Some devoted themselves to a study of astronomy and astrology, while others gave up all wordly pursuits and became ascetics. A good many of them, however, continued their old profession of silk-weaving. The guild prospered so well at Dāśāpura that it could build a magnificent temple of the Sun there in 436 A. D. out of its accumulated profits.

It is thus evident that the guilds of ancient India were not merely close corporations of craftsmen, devoted entirely to the pursuit of their own occupation and little susceptible to culture or progress. On the other hand, they were highly versatile organisations, keenly alive to cultural interests other than those of their own profession. As Dr. Fleet has pointed out, "the guild in Ancient India was thus not merely the means for the development of arts and crafts; but through the autonomy and freedom accorded to it by the law of the land, it became a centre of strength and an abode of liberal culture and progress, which truly made it a power and ornament of society" (Fleet: Gupta Inscriptions No. 18).

The fundamental feature of all guild activity was the collective responsibility that it implied. The guilds were

corporate bodies bound to discharge their functions collectively. For instance, a guild of shepherds had pledged themselves to supply ghee for keeping a temple lamp burning perpetually in these words: "We, all the following shepherds of this village, have received seventy ewes of this temple in order to supply ghee for burning one perpetual lamp. We shall cause one shepherd amongst us to supply an alakku of ghee for one perpetual lamp . . . . . If he dies, absconds or gets into prison, fetters or chains, we, all the aforesaid persons, are bound to supply ghee for keeping the holy lamp burning as long as the sun and the moon endure." (Hultsch: South Indian Inscriptions, Vol. II, p. 251.)

Guild Finance.

The effective discharge of so many functions necessarily meant considerable outlay and a large revenue. The guilds undoubtedly derived their income from varied sources. According to Bṛihaspati and Yājnavalkya, the main sources were the contributions of individual members, the gifts of the king, the profits earned by the members on corporate undertakings and the fines, forfeitures and confiscations for offences (Bṛih. XVII, 24 and Yājnavalkya II, 190). Another important source of revenue for the guilds was the octroi and other duties which they could levy on goods bought and sold within the municipal limits. These items were often supplemented by private borrowing by the guilds or by State help to them.

According to South Indian Inscriptions, the main source of the guilds' income was land revenue, the assessment of which would vary with the nature of the land and its possibilities and the kind of crops raised on it. The guilds also depended on taxes on professions and workshops. The shop-keepers, the barbers and washermen had to pay a licence fee. The weavers, the oil-mongers, the blacksmiths, the goldsmiths, the carpenters, the potters and braziers were all taxed. To these were added in some cases a stamp duty, a tax on vehicles and contributions for Kārtika festivals (Hultzsch: South Indian Inscriptions No. 74 of 1887 and No. 54 of 1914.)

All this income was of course required for the due discharge of the multifarious functions of the guilds. Some part of the funds was utilised for the relief of deserving persons such as the distressed, the diseased, the blind, the idiotic, the infirm, the orphans and helpless women. The remaining money was spent on public works, such as the construction of a house of assembly, a shed for (accommodating travellors with) water, a temple, a pool and a garden (Bṛih. XVII. 11, 12).

One significant feature of guild finance was that all its gains were to be equally divided among its members. For instance according to Bṛihaspati "whatever is obtained by a man shall belong to all in common; whether it has been obtained six months or a month ago, it shall be divided in due proportion. Whatever is obtained or preserved by the members of the fellowship or spent on behalf of the society, or acquired through the king's favour, is common to all (members of the society) Bṛihaspati, XVII. 22, 24). Thus the guild expenditure was socialistic to a degree.

The Guild and the State.

The guild formed a very vital element in the State organisation. In many respects it almost functioned as the State; it was indeed an *Imperium in Imperio.* That the guild had considerable power and influence is borne out by ample evidence. It was a body feared and respected by the people and even the king showed deference to it. For instance, in the Mahābharata, we are told that king Duryōdhana did not like to return to his capital after his defeat by the Gandharvās. "What will the heads of the guilds and others say to me and what shall I tell them in reply" (Mahabhārata: Vana Parva, 248).

The guilds exercised a great influence in the State, as they contributed a large amount of revenue by way of taxes and otherwise. According to Arthaśātra, the taxes collected from the corporations of artisans and handicraftsmen (Kārusilpiganah) was classed under revenue derived from forts or cities (Arth. Bk. II, Ch. 6). In times of emergency, the guilds were obliged to pay to the state in a number of ways. Among the methods for the replenishment

of the treasury by a king who finds himself in great financial trouble and needs money, Kautilya mentions the following: "or else, a spy, in the garb of a rich merchant, or a real rich merchant famous for his vast commerce, may borrow or take on pledge vast quantities of gold, silver and other commodities or borrow from corporations bar gold or coined gold for various kinds of merchandise to be procured from abroad. After having done this he may allow himself to be robbed of it the same night" (Arth. Bk. V. Ch. 2).

Occasionally, the guilds were so powerful as to become a menace even to the authority of the state itself. For instance, autocratic or unpopular or weak administrators would sometimes find the guilds centres of rebellion. It was therefore thought advisable to take special measures to divide and weaken them or to enlist their support actively on the side of the Government. In Book V chapter 3 of the Arthaśāstra, dealing with "subsistence to Government Servants" the pay of "Śreṇimukhyas" (chiefs of guilds) is set down as equal to that of the chiefs of elephants, horses and chariots; and with this amount they can have a good following in their own communities." Further in Book VII, chapter 6, Kautilya mentions, among the nefarious ways by which a hostile party is kept down, that a "Śreṇivala" (according to Majumdar, guilds which followed a military profession along with industrial arts) is to be furnished with a piece of land that is constantly disturbed by an enemy evidently with a view to keep them too busy to interfere in the affairs of State. In Book VII Chapter 1, the "Śreṇi" is classed along with soldiers as a means to repel the invasion of the enemy.

The importance attached to guild agreements is best evidenced by the fact that according to Yājnavalkya and Manu, Nārada and Bṛihaspati, the violation of agreements entered into with the corporations is recognised as one of the recognised titles of law. (Manu VIII, 51, Narada X, 2, Bṛihaspati X, 6 and Yājnavalkya II, 15.) Further Yājnavalkya lays down that the duties arising from the rules and regulations of the corporation (Sāmayika), not inconsistent with the injunctions of the sacred texts as well

as the regulations laid down by the king, must be observed with care, thus placing the duty towards the guilds on an equal footing with that towards the state.

Again, in the Mahābhārata, we are told that guilds should not be taxed heavily, as their disaffection would be a great calamity to the State (Shānti Parva, 13). In fact, one of the many supports upon which ultimately rest the power of the state is the power of the guilds. Hence the State must either bribe them into submission or divide and rule them or keep them busy in one way or another (Shānti Parva, 107). Their heads must be brought over when the king undertakes the invasion of another kingdom (Shānti Parva, 59, 141).

The guild was, therefore, a formidable factor in the body politic. It enjoyed all the privileges of a corporate personality. "If a man belonging to a corporation in a village or a district, after swearing to an agreement, breaks it through avarice, the king shall banish him from his realm" (Manu VIII, 219 and Yājnavalkya II, 187—192). Thus all the agreements entered into with a guild had the sanction of the state behind them.

Again, the Jeṭṭhaka (alderman) and Setthi, *i.e.*, "the heads of corporations were treated by the kings as representatives of the people. In the Pre-Maurya period, it was through their guilds that the people were summoned by the king on important occasions (Rhys Davids: Buddhist India, p. 97). Śreṇis also played an important part in public finance, as the taxes to be paid by traders and other inhabitants of the town were agreed upon by the rulers "in consultation with the heads of the guilds." (Hopkins: India, p. 176).

Necessarily, therefore, the Mukhyās, *i.e.*, heads, presidents or representatives of the corporations constituted like the king's councillors, an important 'estate' of the realm. At the coronation of the kings, *e.g.*, in the Rāmāyana, guilds had the right to the sprinkling or annointing ritual. Sometimes guild members occupied high state offices as we know from the Jāṭakas. Socially on the whole they were almost the 'peers' of the king and undoubtedly their influence on public opinion was very great.

Though the guilds were powerful bodies exercising great influence over the body politic, yet limitations were set to their power. If they transgressed these limits, they were to be checked by the king. Thus, according to Nārada, "among heretics, followers of the Veda, guilds of merchants, corporations, troops of soldiers, assemblages or kinsmen and other associations, the king must maintain the usages settled among them, both in fortified towns and in the country. Whatever be their laws, their religious duties, the rules regarding their attendance and the particular mode of livelihood prescribed for them, that the king shall approve of. But the king had to prevent them from undertaking acts as would be either opposed to the wishes of the king or contemptible or immoral in their nature or injurious to his interests. The king could forbid a combination of different associations (possibly of a hostile nature), arming of those bodies without due reason, and conflict between them. Further, those who cause dissensions among the members of an association shall undergo punishment of a particularly severe kind, because they would be dangerous to society if they were allowed to go free. Whenever a criminal act, opposed to the dictates of morality has been attempted, the king desirous of prosperity shall redress it" (Narada X, 4, 5, 7). The commentary on these verses is more enlightening as regards the relations of the king with such guilds. It says that the king had to maintain the rules and usages as settled by the guilds, whatever they might be. But the guilds may lay down such rules as "we shall not pay taxes to the king", "we shall gamble," "we shall drive at excessive speed along the public road" etc. In all such cases, the king had to put down the activities of the guilds, as they were injurious to the political and social interests of the state. Otherwise, the guilds were free to act in their own way and the king was obliged to accept their decision (Nārada—Samhita, edited by Jolly, p. 164, footnote).

Again, the heads of the guilds were often the great favourites of kings. In the Uraga Jātaka, we find two guild leaders as being included among the Kōsala Mahāmātras. They were the exponents of class interests and often represented the guilds in the executive administration. In

one of the Jātakas, we find one of these headmen appointed as a Lord of the treasury (No. 445). According to Prof. Rhys Davids, disputes between one guild and another came under the jurisdiction of the Mahāśetti or the Lord High Treasurer, who acted as a sort of Alderman over the guilds (Buddhist India, p. 97).

Oftentimes, the guilds used to collect taxes from the people on behalf of the state. For instance, a guild of braziers was authorised to receive taxes from all classes of people in the month of Kartika (Epigraphia Indica, Vol. XIV, p. 158). The guild thus served as a treasury of the state.

But the guilds used to frequently stand up against the oppression of tyrannical governments. One guild for instance decreed that none of its members should give to the king's officers and other oppressors any shelter, or write accounts for them, or agree to their proposals as a defensive measure against the cruel exactions of the king. They had pledged themselves to mutual support in these words: "We the members of ninety-eight sub-sects enter into a compact in the nineteenth year of the king, that we shall hereafter behave like the sons of the same parents, and what good or evil may befall any one of us, will be shared by all. If anything happens to the Idangai class, we will jointly assert our rights till we establish them." (Government Epigraphists' Report 1913, p. 73).

Conclusion.

Thus, the Śreṇis of Ancient India, though primarily economic in their scope, were very powerful institutions exercising political and social functions and enjoying a considerable amount of executive, legislative and judicial autonomy. No doubt, they must have been very often restricted and circumscribed by the centralising efforts of successful empire-builders or nation-makers. It is, however clear, Dr. Sarkar has pointed out, that "On the whole, the Swaraj of Hindu Śreṇis, the functional sovereignty of India's old economic associations, was essentially an analogue, if not a replica of the *Liber Burgus* of Medieval Europe, in so far as this latter was achieved by and

dependent on guilds and crafts" (B. N. Sarkar: The Political Institutions and Theories of the Hindus, p. 49).

The guilds no doubt did serve a useful purpose in their own times. They were politically powerful, socially serviceable and economically efficient. They were essentially suited to the handicraft stage of industrial development, when perfection depended largely on the hereditary skill of the small cratsman. But the overwhelming competition of cheap machine-made goods—which were imported into India after the Industrial Revolution in the West—brought wholesale ruin on the hereditary craftsman, who had to give up his occupation and take to agriculture or even domestic service. The suddenness with which he was attacked hardly gave him any time to adjust himself to the new situation so that he gave up the unequal struggle with very little resistance.

The ancient Indian guilds have been criticised for the very strict enforcement of their regulations; but the chief object of these rules was not only to preserve the solidarity of their organisation but also to give the weak and unfortunate the same chance in life as others more favoured by circumstances. It is also true that these guilds were based on a theocratic conception of life. "But the development of the competitive impulse, particularly in the pursuit of personal gain in the modern age, is absolutely opposed to the growth of the sentiment of humanity and of religious conviction among men." (Birdwood: The Industrial Arts of India, Part II, p. 139.)

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RANADE, THE ECONOMIST

BY

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A contributory factor to the dissatisfaction with Classical Economic Theory was the neglect of the national element. The revolt of List who emphasised the need of a National Political Economy and condemned the Cosmopolitical, brought about a new outlook on economic theory. Nationalism and national factors influenced the development of this new economic thought and were responsible for the evolution of National Economics.

For long this National Economics which shaped the destinies of Germany, the United States of America and other countries, was looked upon with disfavour in England and when India was drawn into the orbit of the British Empire in the nineteenth century, she automatically came under the paralysing influence of Laissez-Faire policy. Indian conditions were vastly, and even now in some measure continue to be, different from those of England. But it was argued that what was good for England was *pro-tanto* good for India. It was evident that such a policy was inapplicable to India and definitely prejudicial to the economic development of the country. Yet, very few, indeed, had the necessary equipment and, much less, the courage to point out the absurdity of the situation. The result was that the study of such an important subject as Indian Economics was neglected and Indian economic development suffered.

India needed one who had scholarship and courage—scholarship to understand the subject and think on it, and the courage to speak out his convictions, refusing to accept anything on mere authority, though what he advocated might go against the accepted economic principles and the

declared policy of the Government. In fine, India needed an economist of her own.

Such a scholar and economist was Mahadev Govind Ranade. So important a subject as Indian Economics which was till then neglected became alive with interest, and we may date, from about this time, the dawn of Modern Indian Economic Thought. The speeches and essays of Ranade embody the results of his labours and constitute the first systematic study of the subject by an Indian.

Having set aside the controversy of India's comparative progress under the British rule as barren and useless, Ranade went straight to the root of the problem and asserted that "the practical question for us all to lay to heart is not the relative but the absolute poverty and present helplessness of the country generally."

The problem having been fixed upon, Ranade went on to recount the causes of Indian poverty and proceeded to suggest remedial measures, regardless of the attitude of the Government.

The economic dangers that came in the wake of the British rule in India were clearly pointed out by Ranade and emphasised as contributing to the sad economic plight of the country. India had come to depend almost entirely upon agriculture. Her industries had decayed. The Indian economy had become lop-sided. Indian poverty was staggering. To redress this unbalance in Indian economy and for the economic regeneration of the country, he suggested various constructive measures. But amongst them, the formulation of a policy for the development of Indian manufactures and commerce was regarded by Ranade as the most essential factor in India's economic salvation.

Contrary to the attitude of the Government then, Ranade condemned the Laissez-Faire Policy of the State and advocated the active encouragement and development of industries by the Government. He pleaded for an extension of the principle that was already in operation in plantation industries like Coffee and Tea. He spoke of the State as having "pioneered the way for the introduction of these foreign products among the agricultural resources of the country." He urged that the State should

extend this beneficent principle to other spheres than agricultural.

Ranade's paper on "The Iron Industry; Pioneer Attempts," makes clear to us what rôle, according to him, Government should be assigned in the general scheme of industrial development of the country. It was not a Socialist Economy he envisaged. He did not suggest what was patently impossible, at any rate, then, namely, that Government itself should undertake industrial enterprise and management. He was convinced that "the natural resources (of the country) are in unmeasured abundance and natural demand is increasing every day in volume and urgency. Organized skill and direction are the only needs of the country and these the Government possesses or can command in a way which makes it their duty to step in and assist the development of local enterprise, for which the necessary capital will be forthcoming in this country if the early risks of such employment are reasonably assured against." When one studies the economic history of India of the past four decades, the balance and sanity of the measures he advocated become evident.

After surveying the entire field of Indian manufactures and commerce, touching alike upon the darker and brighter sides, in his paper on the "Present State of Indian Manufacturs," Ranade pointed out as to what should be done.

"What we have to do in each case is to learn by organised cooperation to compete with the foreigner and take in as much raw produce from abroad as we need, and work it up here, and to send in place of our exports of raw produce, the same quantities, in less bulky but more valuable forms, after they have undergone the operation of art manipulation and afforded occupation to our industrial classes."

Proceeding he said: "We have to organise labour and capital by cooperation and import freely foreign skill and machinery till we learn our lessons properly and need no help."

He was no visionary dreamer but a realist. The measures he advocated were not only progressive but practicable. Though alive to the many stupendous obstacles, he struck an optimistic note when he said that "notwithstanding

these disadvantages and the free trade policy of the Government, we may win if we only persevere in our efforts and direct them by cooperation on a large scale into proper channels."

Nor was this optimism unjustified, for he pointed out:

"Natural aptitudes, undeveloped but unlimited resources, peace and order, the whole world open to us, our marvellous situation as the emporium of all Asia, these priceless advantages will secure success, if we endeavour to deserve it by striving for it."

Ranade felt that the measures he advoctated for the economic regeneration of India, conflicted with the principles of Orthodox Political Economy which, unfortunately, so much determined the policy of the Government. But in his lecture on Indian Political Economy, he set himself to the task of surveying the development of economic science and pointed out that while the earlier writers had regarded Political Economy as a science of abstract truths, as teaching a universal and dogmatic truth, there was a growing realisation, even in Western countries, that the assumptions of the Classical School were largely invalid. If these assumptions were not literally true of any Western country, they had hardly any validity at all in India. The outcome of this realisation by Ranade is the famous, now almost classical, sentence:—

"With us an average individual is, to a large extent, the very antipodes of the economical man."

Having shown the utter futility of the dogmas of the Classical School and having pointed out that the principles of Orthodox Political Economy were outworn, Ranade made out a case for a change in the policy of the Government. The dogma of territorial division of labour would reduce India to the level of a producer of raw materials alone which, he contended, India should not be, for nature did not intend her to be so. Nor should the dogma of Laissez-faire be allowed to stand in the way of the adoption of remedial measures for the economic regeneration of India. There was an imperative need for the adoption of a bold industrial policy. It was time that India emerged from the

bane of the Classical School and came under the beneficent influence of National Economics.

Ranade was a pioneer in the study of Indian Economics. The first Indian to pursue in a scientific spirit the study of the subject, he brought to bear upon it his robust commonsense, wide reading and penetrating insight. His essays and lectures reveal his profound scholarship and mastery over the science of Political Economy. The genius of Ranade is everywhere in evidence—in his survey of the economic conditions of India, masterly but candid; in his diagnosis of the situation, alarming but unmistakably correct; in his review of the development of economic science, superb but instructive; and finally, in his prescription of a course of remedial measures for the resuscitation of Indian economic life, progressive but practicable. It is this that entitles him to a place in the front rank among Indian economists.

The essays and lectures of Ranade were the first attempt to teach the people of India a subject which though it concerned their lives and prosperity, yet was considered to be something of a mystery and beyond the pale of their comprehension. This enlightenment of the people over their economic environment has since created in them an interest for the subject and a desire to improve their economic conditions.

Thanks mainly to Ranade, there is evidence on all sides that the study of Indian economics is receiving today far more attention than before. This is quite in keeping with the importance of the subject. Not only have many, like Ranade, now taken up the lead given by him, but it finds an honoured place in the curriculum of the Universities in India—surely, a congenial place for its nurture and development.

Further, it may be said that Ranade was the first to give an economic basis for our political problems. This viewpoint, essential to the understanding of the economic and political problems of India in their proper perspective, had been either not comprehended or ignored.

Ranade was almost the first to differ on matters of economic policy from the Government of India. It was an

insult to his intelligence and an affront to the self-respect of his country that an economic policy, fashioned after the conditions in England, should in its entirety be applied to India, regardless of its suitability. Ranade found the dogmas of the Classical School unrealistic and "un-national" and the economic policy unsuited to his country. With him, as with Friedrich List, to whose achievement in Garmany, Ranade's work in India bears a close resemblence, economics remains political and national. The function of Political Economy is not to furnish us with a set of dogmas but to accomplish the economic development of the nation. In general, it may be said, that the development of the productive powers of the nation is desirable and essential. In particular, it is imperative at the proper time to secure the economic development of the country. Ranade perceived that the time for securing such a development of the country had arrived for India. This realisation led him to protest against the adoption in India of an economic policy which was unsuited and retrograde.

In respect of the attack on the Classical School and the formulation of a national economic policy, Ranade, like List, rendered signal service to his country. But while List evolved a National System of Political Economy, giving solid support to the policies he advocated, there is no evidence to show that Ranade derived at any theoretical basis, except so far as he quoted Western authorities, for the measures he suggested. But he was half-way towards achieving such a distinction when he emphasised that Indian Economics was a separate subject and gave it a definiteness and an individuality. Had he but evolved certain principles of National Economics from Indian conditions, Ranade might well have been hailed as the List of India and classed, along with him, in the category of leading National Economists. Perhaps, there may yet be, and I hope there are, some unpublished works of Ranade which may impart that sense of completeness to his contribution which it now seems to lack.

Yet, it is indisputably Ranade's distinction to have accomplished for the subject of Indian Economics, what Adam Smith did for English Economic Thought. It is

doing the barest justice to him to say that he is the Father of Indian Economics. But when one studies the history of his life, one feels that though he is great as an Indian Economist, he is greater still as an Indian.

SUMMARY

Laissez-Faire and India—Ranade, his lectures and speeches—India's staggering poverty—remedial measures—Formulation of policy for the development of Indian manufactures and commerce—His paper on 'Iron Industry; pioneer attempts'; rôle of Government in general scheme of industrial development of country—Paper on 'Present state of Indian manufactures—Suggestions for improvement—Review of development of economic science—case for India emerging from the bane of the classical school and coming under the beneficent influence of National Economics—Ranade and Indian Economics—His services to the country as an Economist—Parallel case of List in Germany.

A NOTE ON INSTITUTIONALISM IN INDIAN ECONOMIC THOUGHT

BY

H. VENKATASUBBIAH.

In this paper I have tried to trace institutionalist trends in the literature on Indian economic subjects. Since the material reviewed is not adequate for the purpose and the treatment by no means thorough I have called the paper only a 'note.' Paul T. Homan writing on the institutional school in *The Encyclopaedia of the Social Sciences*[1] considers the suggestion that institutional economics consists of studies of three types, namely, genetic studies, studies of the economic significance of single institutions, and studies of typical economic structures in terms of economic functions and types of organization, and observes that "while this classification indicates the emphases which are common to institutional studies, it offers no clue to the positive content of institutional economics. . . . . the content of institutional economics can only be described as the aggregate result of all these studies irrespective of the methods by which they have been pursued."[2] Homan mentions some of the forms, based on the methods adopted, which institutional studies may take. Historical analyses of a theoretical and interpretative sort, descriptive and interpretative works as in the field of labour organization, and the combination of description with theoretical analysis as in works on business organization are held to be examples of institutional studies.

In the literature on what is called 'Indian economics' there are a considerable number of studies which can be described as institutional. The economic significance of such non-economic institutions as caste and custom has been

[1] Volume 5, p. 387 *et seq.*

[2] P. 391.

studied by many writers. The former has been treated in a rather casual manner by several writers, drawing conclusions of different degrees of validity. And no thorough treatment of caste seen through the evolution of modern capitalism in India, on the model of a work like R. H. Tawney's *Religion and the Rise of Capitalism*, exists. But mention must be made of Radhakamal Mukerjee's chapters on the subject in his *Foundations of Indian Economics* (1916) and the papers contributed by him and Sir Edward Blunt on caste and custom to *Economic Problems of Modern India* (1939). In the absence of an adequate historical appraisal of the extent to which the spread of industrial capitalism in India has corroded into the institution of custom and caste and the extent to which the emphasis on the economic significance of the institution is to be modified in the light of this, loose and exaggerated statements on the subject, such as those that occur in Vera Anstey's *Economic Development of India*, cannot be prevented. Further, since the evolution of capitalism is a process, by studying the institutional distortions wrought in that process in our country we would be contributing to a general theory of the process, in the same way as the historical studies of the influence of economic expansion on such non-economic institutions as religion and liberalism by Tawney and Laski respectively have done.

More or less with this type of study also goes the study of law as an institution for the realization of economic ends. Modifications of the terms of property and contract have always followed the altered ends of economic expansionism. Almost every book on Indian labour problems contains chapters on labour legislation. And for full-length works we have those by Rajani Kanta Das, *Factory Legislation in India* (1923) and *Principles and Problems of Indian Labour Legislation* (1938). The law in relation to the agricultural economy is studied by K. G. Sivaswami in his *Legislative Protection and Relief of Agriculturist Debtors in India* (1939). As an example of a typical study of taxation law the one by B. V. Narayanaswamy Naidu and S. Tiruvengadathan. *The Madras General Sales Tax Act—A Study* (1940) might be mentioned. Such studies cover not merely

commentaries on and interpretations of the acts, but also the administration of the law, the procedure and extent of their actual working. Some of them, as that by Sivaswami, also give descriptive accounts of the effect of the legislation on the economic institution to which it was applied, and the work on the Madras General Sales Tax Act has attempted a quantitative measurement of the effect of the act on trade conditions in a particular region. This latter trend is significant and pursued it must take us nearer a more scientific approximation of legislative means to economic ends by providing us with a reference to 'check-up' in advance, to the extent possible, the theories of value and distribution implied in bills. Some studies of corporation law, like the Indian Companies Act and the number of acts that together constitute banking law, in the light of their interpretation as laid down in judicial decisions on their application have been published. But at a time when economic activity in our country is expanding not merely in range but also in institutional complexity it is necessary to understand the theory of the legal framework within the orbit of which we have to proceed on matters of economic policy. A legal theory of property and contract institutionalized in terms of an essentially pre-industrial stage of Indian economic development and still coloured by the nineteenth-century political concepts of individual liberty, is apt to impose stresses which might prove cramping to the needs of present-day economic development in our country. We seem to need for this purpose a work on the model of J. R. Common's *Legal Foundations of Capitalism.*

We may next consider some studies of typical economic structures in terms of economic functions and types of organization. Such studies are regional. In India there are institutions which in their provincial or regional organization and function are to a large extent typical of the structure of the institution in the country as a whole. The co-operative movement, agricultural marketing and the village are examples. For the co-operative movement mention might be made of Ata Ullah's *The Co-operative Movement in the Punjab* (1937) and J. P. Niyogi's *The Co-operative Movement in Bengal* (1940) which study the

movement in terms of the types of organization in it and the economic functions discharged by it in two provinces of India. S. A. Husain's *Agricultural Marketing in Northern India* (1937) and *A Survey of Farm Business in Wai Taluka* (1940) by D. R. and V. R. Gadgil study marketing and agricultural organization and functions respectively, regionally. In this country the village is an institution by itself. Though the old basis of its economic structure is being gradually destroyed by industrialism it still retains an economic structure marked by a strong individuality amidst the urbanization that has surrounded it. And rural economic surveys which are now in vogue may well be classed as studies of typical economic structures assessing the place of the village in the regional or national economy in terms of the organization—agriculture, rural industries, local trade etc.—which it employs to become an economic structure and the functions it is able to contribute through such organization. As example of such studies particular mention must be made of a pioneer work, the Madras University publication, *Some South Indian Villages* (1918).

In economic history interpretative writing which takes us further from mere chronology and description seems to be prominent by its rarity in Indian economics. By interpretative writing is not meant the systematic attribution of motives to the actions of individuals, organizations and governments. The interpretation which institutionalism claims to be part of its thought is the study of the evolution of activity, in origin economic, as product conditioned by the changes, in time and place, in the institutional setting of the activity. Histories of the labour movement and of public finance are cases in point. As in the case of studies of labour legislation, histories of trade unionism in India are just cursory chapters in books on labour problems. Though we have a writing like Rajani Kanta Das's *The Labour Movement in India* (1923) we are yet to produce a work like the Webbs' *History of Trade Unionism in England.* In Indian public finance we have been treated as a rule to historical 'fact finders.' But two exceptions must be noted. They are K. T. Shah's *Sixty Years of Indian Finance* (1921) and Pramathanath Banerjea's *A History of Indian Taxation*

(1930), both of which can be called interpretative writings though the latter is to a lesser degree so.

The analysis of social problems of a non-economic character which are incidental to economic expansion also comes under institutionalism. The best example is the study of the effect of capitalism on the physical and mental conditions of the working classes, their housing, health, education, the care of their women and children, etc. Analyses of such problems with considerations of remedial measures are to be found as chapters in general works on industrial labour and in R. B. Gupta's *Labour and Housing in India* (1930).

"Of the branches of economic enquiry in which the institutionalist approach has proved most fruitful" writes Homan,[3] "the field of business organization stands out prominently." In this country the study of the various business problems of capitalistic industry has been a favourite in recent years. P. S. Lokanathan's *Industrial Organization in India* (1935) is an analysis of the business problems of industry as a whole; while a number of books have followed, some dealing separately with a single problem like industrial finance or with a single problem of a single industry like railway rates. For a historical analysis of a problem in business organization and its effects mention must be made of F. P. Antia's *Inland Transport Costs* (1932). In so far as the tariff has now become a part of business organization in industrial countries those studies of protection in relation to Indian industries receiving them are institutional. H. L. Dey's *The Indian Tariff Problem in relation to Industry and Taxation* (1933) and B. P. Adarkar's recent work *The Indian Fiscal Policy* (1941) are examples. They combine description with theoretical analysis. The latter also attempts quantitative computations of the effect of the tariff on general business organization.

Lastly we may note yet another aspect of institutionalism,—the verification of general economic theory in terms of local institutional experience. Y. S. Pandit's *India's Balance of Indebtedness* (1937) appears to be the most natural example, and some studies in the field of the

[3] *Op. cit.*, p. 391.

Indian population problem, like Gyan Chand's *India's Teeming Millions* (1939), have a similar contribution to make. But a prominent want in this category is that of the study of trade cycles in India in relation to their general theory.

The foregoing, though not comprehensive as I said at the outset, does, I believe, indicate the existence of institutionalist trends in Indian economic thought as well as the fruitfulness of its results towards the understanding of the extent and complexity of our economic structure. Consequently, "in the synthetic and creative construction of an adequate organon"[4] the pursuit of the trend ought to be indispensable. Such a pursuit seems all the more necessary at the present time when economic thought is drifting into a frank cynicism for the approximation of theory to empirical actuality.

[4] *Ibid.*, p. 392.

RURAL CO-OPERATION AND NATIONAL PLANNING IN INDIA

BY

S. KESAVA IYENGAR.

An attempt is made in this paper to estimate the potentialities of the rural co-operative movement in India, *at this juncture*, for helping in the task of rural reconstruction. This work has been considered legitimate because nowadays a great deal is being heard on the worship of the principle of co-operation, and perhaps too much reliance is being placed on formal administration reports which more often than not, paint pictures quite different from the originals. It is common even for economic experts to press all the ingenuity of theoretical analysis into the service of official opinion: this was so in Sweden and in Britain, and it is no surprise that it was and is so in this country. The object in saying some things frankly here is not to disparage the movement as such, but to sound a note of warning that it is too late in the day to continue to sit in the armchair and try to improve matters through the *charm* of "co-operaiton."

Numerous writers have dwelt on the achievements, failures, dangers and desirable reforms, from time to time. There have been the Agricultural Commission and the Banking Inquiry Committees, and their views in the matter, and latterly, there have been provincial committees and their reports, the latest having been the one of Madras. The purpose of this Paper is not to go into the points raised by those investigations (readers are referred to the originals), but an enumeration may not be out of place, so that it might serve the purpose of refreshing the reader's memory.

Among the achievements claimed are:

the all-round reduction in the general rate of interest in rural areas;

the increasing encouragement to saving and investment;

the decrease in consumption borrowing;

the growing morality and independence of outlook of the cultivator; and

the increasing interest in rural matters created in the minds of urban capitalists and workers.

Among the alleged defects are:

want of due supervision;

undue delay in financing;

financing more on the basis of assets than paying capacity;

indiscreet loans;

contumacy of borrowers;

unpunctuality in repayments;

restriction of loans to a few individuals (in C. P. & Berar, 15·3 per cent of members owed 80 per cent of the loan amount, and nearly Rs. 20 lakhs were owed by 175 individuals);

dishonesty and incompetence of Government, bank and society officials;

bad selection of members;

membership spread over too large an area;

concealment of old debts;

faulty constitution;

internal dissensions;

inadequacy of funds;

preponderating influence of one or a few members; and

the general lack of interest of members in the affairs of their society.

The dangers have been analysed into:

the tendency to officialise the movement too much and leave too little to private initiative;

the eagerness of too enthusiastic organisers to rush the pace of the movement at the expense of intensive development;

the opposition of the money-lending class, which has been growing in persistence;

a few of the members monopolising the work and leaving too little room for the incentive of others; and

abuse of powers in the collection and distribution of funds.

Several reforms have been and are suggested, among which are:

punctual repayment of loans and effective reduction of overdues, thereby making the banks financially sounder and consequently able to get money at cheaper rates;

reduction of the working expenses of the central banks in some provinces where they are now unduly high;

borrowing by central banks at cheaper rates for short terms and utilisation of urban slack money;

regulation of deposit rates;

a direct tapping of savings in rural areas wherever it is possible;

timely finance; and

grant of long-term credit to deserving members.

Where Experts Differ

Before proceeding further, it would be appropriate to refer to certain views held by well-known co-operators: the purpose in doing so is to show that while there is nothing original in this Paper, expert views on co-operation in India differ sharply. Discussing the general relation between

co-operation and the State, the Agricultural Tribunal of Investigation in England said in 1924:

> "The movement has been essentially in its origin a voluntary or self-help movement. The State has in later years played a part, but it has been an auxiliary and a subordinate part. In many cases, the State has only come in to help after success was assured."

C. R. Fay said:

> "Co-operation is one way of conducting certain parts of the ordinary business of life. As an aspect of business life, co-operation is concerned with free men in self-regulated action."

The Agricultural Tribunal referred to above said:

> "Sir Horace Plunkett is right not only in his formula of better farming, better business, better living, but in pointing out that better business is the centre of the problem."

But Sir Horace also said:

> "It (the co-operative movement in India) is not a spontaneous growth, but a Government policy."

And this is borne out by C. F. Strickland who spoke on the basis of long practical experience in India:

> "The moral for India is plain: co-operative independence of officials is not an axiomatic right: if assumed before the co-operator is ready to maintain a really high level of exactitude, it will bring him to disorder: when he is literate, punctual and thorough, he will be competent to audit and inspect himself within the law."

Dr. Vera Anstey went perhaps deeper into the matter and said:

> "In the past, the outstanding characteristics of the relations between the Government and the co-operative movement in India have been an ex-

> ceptionally high degree of moral support combined with an exceptionally small amount of financial aid . . . . Financial "tutelage" has been rejected in favour of financial independence . . . . . . In India, the old subsistence economy is beginning to break up, and the introduction of a money economy, farming for a market and of more competitive farming, has brought with it the concomitant problems of land speculation, higher rents, and the increase of the landless class, while intensifying the difficulties created by former defects. These problems must be attacked and scientific methods must be spread before co-operation can make rapid progress."

Dr. John Mathai said:

> "Co-operation in India is still to a large extent an experiment in the dark . . . . The human material they work on are yet unable in any large measure to appreciate the meaning of the new movement and to respond to it in any active intelligent manner either by participation or by criticism."

Calvert started his discussion on the movement by saying:

> "It is perhaps unfortunate for India that England being essentially an industrial country, the British officials brought with them the idea of co-operation prevalent in manufacturing countries."

The Royal Commision on Indian Agriculture said:

> "If the rural community is to be contented, happy and prosperous, local Governments must regard the co-operative movement as deserving all the encouragement which it lies within their powers to give."

Sir Malcolm Darling was more categorical:

> "No financial stringency or economic depression however serious, should be allowed to retard its (the co-operative movement's) development."

A. Howard and G. L. C. Howard said:

> "Viewed from the standpoint of the development of the countryside as a whole, the great weakness of the work in the districts is that it has never covered the whole subject . . . . . Finance has been omitted altogether and the human factor has been dealt with to a very small extent."

These extracts show that there is a general agreement (in spite of differences) in recognising that for co-operation to succeed, many preliminaries must be ensured (like spread of literacy, adequate finance, etc.) and there is an equally unanimous agreement that in these preliminaries, little or nothing has been done. The net result is that co-operation is being expected to grow into a large tree yeilding shade, scenery, manure and fruit, but still continuing on the basis of a hanging garden! The longer the plant has lived, the greater the burden on the peg of "Government responsibility" and the Government has done practically nothing in order to raise *terra firma* to the level of the plant (by fully and freely equipping conditions necessary for the prosperity of the plant) or lower the plant (by completely de-officialising the movement), so that the peg might be relieved after its temporary purposeless era. But still even in 1941, we are asked to remember the ideal set forth by Lord Curzon:

> "Let us contemplate in districts or towns or villages here and there a few of these institutions coming into existence and gradually striking their roots in the soil. Each tree so rooted will ultimately cast its own shade and will be the parent of others."

"Co-operation Can Do No Wrong"

Many are the swan songs and prescriptions of such a general character, and following the worthy example of Sir Roger de Coverley, "much might be said on both sides." But, taking an inside view, the movement has seriously erred in three ways: departmental notes and reports did not tell the truth always, and many things said were half-truths. Secondly, the authorities did not understand the fundamental principles sometimes, and they did not apply them conscientiously at others. Thirdly, effort has been almost uniform at painting the results far too bright to have any relation with reality. When one reviews in one's mind many of the bluffs co-operative officials have been capable of, one wonders how all of it came about. A few instances are enumerated below.

Number of Societies.

This number is given according to the register of registration, including those societies which have never yet started work, which ceased to work long ago, and which are merely kept on as living through book adjustments every year. Of course, liquidated societies are excluded, but there are numerous societies in which there are arbitration proceeding against a high majority of members (or involving a predominant part of the capital), and these are in reality as inoperative as the liquidated ones. It is true that there would be difficulties in drawing a line, but drawing a line somewhere would be much more honest than not drawing it at all. A reviewer of the latest blue book on the subject helplessly said:

> "How many of these are functioning well, we have no means of knowing from these statistics."

Membership.

No administration report has made an attempt to divide the theoretical membership, into actually participating members on the one hand, and nominal, "dead" and "untraceable" members on the other. The latter category is quite substantial and officials even after knowing this and

remembering this give us percentages of "co-operators" on the rolls to total rural population. Even nowadays, persons against whom arbitration awards are under execution are included among members because their names are on the registers, but there is very little hope of even a small percentage of that class continuing as members. For the present, the only operations relating to them are auctions of moveable and immoveable property by the Revenue Department.

Owned Capital.

Someone criticised the rural societies as having very little owned capital, and lo! orders were issued that out of the first loan given, the share amount of the borrowing society (due to the Central Bank) must be collected in full (that is, so much was added to the net loan granted, and adjusted in the books of the central bank as share capital paid), and each individual borrower was similarly made to forgo the preliminary fees and share instalment from out of the first loan. Next year, the figures with regard to owned capital of agricultural societies were very satisfactory! In 1938-39, total working capital of agricultural societies for the whole of India was Rs. 31·61 crores, and out of this Rs. 4·06 crores were owned, but how much of this was by actual payment and how much by book adjustment? If really the owned capital constituted 12·9 per cent of the working capital, the rural co-operative movement in this country would no longer require either Government help or deliberations at economic or co-operative conferences. How hollow these figures are is proved by the figures of total dues and overdues of members of agricultural societies. In 1938-39, overdues were about Rs. 12 crores out of a total due of Rs. 25 crores. This gives a percentage of nearly fifty. And this is after an unknown quantity of book renewals and writing off! We do not know how much of the principal not overdue, has been maintained in that column by formal extensions granted under departmental circulars by co-operative inspectors and auditors, the members in a high majority of cases not understanding the significance of the new documents replacing the old.

Proportion of Co-operative and Non-co-operative Debts of Members.

Experience shows that figures relating to this could be easily collected through the hierarchy of the co-operative department, but no published administration report contains, these figures. It is almost certain that such figures are not liked by the department as it is sure to expose the superficiality of the movement. Some stray attemnts were made here and there, but a systematic compilation of data for the whole country every year would be quite a different thing. This would enable public opinion to assess the success of the co-operative movement at its true level.

Writing off of Interest and Principal.

While this step has been in the right direction on principle, and particularly with reference to provincial and central banks (being impersonal), its application to individual cases has brought forth the greatest disreputation conceivable to the movement, amongst the members. Usually, the most undeserving have had the greatest benefits from *mafis*, and this at the expense of the honest and scrupulously paying member. On this matter, nothing short of a note fully explaining the principles to be pursued in handling individual cases, distributed widely among the public as well as members of rural societies, inviting their suggestions and giving them some reasonable time, should have been possible, but mostly the rule of thumb was resorted to. The intention was certainly good, but the procedure was highly mischievous inasmuch as the morale among the members deteriorated terribly on account of undeserved leniency: many a member is today developing into a defaulter so that next time he might have better luck.

Middlemen members.

Specially in sale societies (they are precious few), a high majority of members are dealer-middlemen, who collect the crop from *bonafide* cultivators and use the funds of the sale society which they take as advances, and carry on trade and sub-lending during the season. Official quarters

cannot deny knowledge of this, and the only justification they could put forward is that this would be a stepping-stone, an inevitable one, to an era of real cultivator-members only. But what one cannot understand is why statistics should not be compiled and published as to how many are dealer-members and how many cultivator-members, how much of the crop in the godowns of the sale society belongs to *bonafide* cultivators who brought it direct to the society, and how much was brought through middlemen.

Landless Tenants and Labourers.

Rural co-operation has done nothing for the neediest, namely, the landless tenants and labourers who number more than double the land-holding classes. Yet, no administration report speaks of the ground to be covered and the urgency for this work.

"Do As I Say"

Oftentimes, the basic principles of co-operation were not properly understood by the authorities, more often did they change their views and policies according to change of personnel and circumstances. A few typical instances might not be out-of-place.

Over-Financing and Under-Financing.

About the boom in prices up-to 1929, land values rose in India steeply but debt on land rose more steeply: the co-operative movement was not a little responsible for over-financing in those days, and most of the arbitration and liquidation proceedings pending even today have had their origins in the lendings of those days: the registrars and their armies could not have missed the possibilities of land values as steeply going down, but they actually ignored this. Now, these "co-operators" are at the opposite pole: they insist on co-operative credit societies in villages doing only crop financing, but what is more, they want the financing to be done most inadequately: it can be confidently said on the basis of actual experience, that in a high majority of cases, even crop financing is going on today, in the case of

members, partly by the moneylender, partly by the society, because the society does not finance adequately even cultivation expenses. The average loan to peasants by rural societies during 1938-39 was Rs. 19. Often, the member borrows from the society in order to allay the demands of the moneylender, sometimes he borrows from the moneylender in order to silence the co-operative official by payment of some part of the interest. Today, the prospect of the members being weaned off from moneylenders is more distant than it was a decade ago. The Registrar of the Central Provinces and Berar in his report for 1928-29 stated that cash loans to members of agricultural societies amounted only to Rs. 54·7 per member, but that when paper renewals and book adjustments were included, the total became Rs. 91·1. A reviewer of these figures in a recent issue of *The Madras Journal of Co-operation* said:

> "Government money was Rs. 54 lakhs in non-agricultural societies, and Rs. 8 lakhs in agricultural ones. To what enterprises Government had lent money is not ascertainable from the Report."

> "If the agricultural societies were more efficient, they could have lent Rs. 25 crores instead of the actual Rs. 6¾ crores (during the year to members) on a very modest estimate. What productive power would that have been!"

Finance, Sanction, Distribution and Utilisation by Independent Agencies.

The public made deposits somehow believing that funds were safe in co-operative societies (the co-operative departments had no mean share in encouraging this belief), the registrars fixed the credit limit of each soceity and each of its members, the central banks distributed the loans through their employees, and the individual cultivating members got the loans for use. The depositors had no hold on the primary borrowers, and the financing was sanctioned by an agency which did not own the funds nor was responsible for it really. This use of the purse of A by orders of B through

C by D has been mainly responsible for many of the ills of the rural credit movement. While preparing the original application for loans, and while collecting dues, the members were encouraged to act as judges, and the result was that fabulous values were attached to usual lands, and year after year the societies resolved that the crop condition was bad and that raiyats were incapable of paying anything even against interest accumulations. As Dr. E. M. Hough put it:

> "Such overdues accrue even in exceptionally favourable areas and during good years."

The authoress interpreted this as having been due to lack of co-operative spirit, but really this bad habit developed among the members on account of the money belonging to depositors in the apex or the central banks, and the supervisors being controlled more by the registrar and his staff than by the central banks.

Unlimited Liability of Members and Unlimited Powers of Officials.

Education without literacy is conceivable, but business without literacy, of an organised kind, is hard to think of. A common abuse of the privilege of illiteracy by members of rural societies is to deny loans or to say that they had already paid—to some ex-official. There are numerous cases of the proceedings register containing exactly contradictory resolutions by the same members—according to the dictates of different persons or authorities. Many a time, the thumb impression is affixed to blank papers: the inspector has no time to complete the papers on the spot: he is anxious to reach home before dusk. Many an auditor looks in his own room or of a friend, at the books of the society the accounts of which he audits, not into the faces of the members. Balance sheets come and go, but the average member remains as blissfully ignorant as ever. There are a considerable number of societies with not a single literate member, and to my surprise, in one village two miles from a district headquarter town, a literate member of the local credit society, worth about Rs. 10,000 landed property, was

not able to tell me the rate of interest charged by the central bank on the society's loan, and that charged by the society on members' loans. Nor did the secretary of the society know these rates. When I asked them how they carried on their accounts, the cool, but confident reply was:

> "The supervisor comes and gives a *patti* according to which we collect."

And yet, even recently, virtues of the moral side of co-operation have been sung:

> "In a village the reputation of a member of a co-operative society depends on personal factors rather than impersonal realisable assets, so that it is possible to grant loans on personal credit alone . . . . The existence of unlimited liability is very valuable in maintaining true co-operative principles."—Dr. Vera Anstey.

What a rosy picture, but how different from the actuality! Not in a single case has the principle of unlimited liability been enforced in any part of India (had this been done from start, "overdues" & co. should not have emerged), and in most societies, leave alone unlimited liability, the dominant belief is that it is a Government organisation, and there is no difference between *taccavi* and a co-operative loan. In a sense, unlimited liability is always intelligible to the member: he says, the land belongs to Government, and it is always open to them to take over the land for any reason. But he has been taught to look to Government as the *mabap* who will never do anything like taking away his lands: the recent legislation against alienation and auction, has rendered the defaulter in rural societies more unbusinesslike than before. In many cases, members are not able to count money: It is, no surprise that under such circumstances, specially in the earlier days, there was rampant corruption at every stage.

Contrary and Unbusinesslike Rules and Orders.

In the case of a Government servant, when an attempt was made to collect instalments from his salary, against dues

by him to the village society with unlimited liability, one registrar ruled that collections should be madè only from the porperty shown in the property statement of the rural society concerned! In another limited liability society of Government servants, carrying on lendings on the basis of personal security (that is to say, on the basis of salaries), one registrar insisted that on all loans of Rs. 1000 and more, landed property should be taken as security as personal security was inadequate. And this was one of the best societies going: no external loans, no arbitration cases, and audit class "A." In another case, after liquidation decrees were sent up and sanctioned, another registrar wrote off the decree amount on the ground that the member had never borrowed from the society, but simply purchased shares! When certain villagers wanted to register societies with limited liability, the registrar in another place, insisted on calling them "urban banks"—as he could not conceive of village societies with limited liability. In the earlier days, many a central bank, with the co-operative department agreeing, distributed 10 per cent dividend on share capital, on the basis of paper profits, sincerely believing that collection of dues was no concern of the bank, and that Government would arrange for it easily some time or other. Latterly, even when such banks, after a period of no dividends, had recovered and wanted to declare some small dividends with a view to create some confidence in the minds of the shareholders, the registrar said "no," in the meanwhile yielding to the demands of the apex bank for a high dividend—based on the denials to the central banks fast recovering. In many cases, when a central bank was started in a small area, good societies were retained by the apex or the older central bank, and bad societies were transferred to the new-born central banks which thus had to *start* with huge bad debts on their shoulders.

Fluid Resources.

It is too well-known that in the case of rural societies, no funds were kept in liquid form, and when the land values collapsed, it spelt an automatic collapse of the societies.

Recruitment.

Not a small share of the mismanagement was and is due to bad recruitment: the Co-operative Department has long been a dumping ground for mediocres and unqualified men. On the other hand, the Agricultural Commission was very particular about recruiting the best men.

Arbitration and Liquidation Awards.

Thousands of awards were sent on to the Revenue and the Judicial Departments for execution, but as Dr. Vera Anstey put it very appropriately:

> "It is no easier to enforce executions of awards and liabilities by the sale of a whole village's lands than it was, in Burke's phrase, to indict a whole people."

Co-operative Poetry

It is hard to find departmental reports which do not exaggerate prosperity, which do not conceal unhappy data. Many a report pleads that the co-operative credit movement has a plethora of funds and there is no room for investment! What a tragic statement in the face of the figures with regard to rural indebtedness which we have from different sources! The reality is that of late, lending in rural societies is so over-careful and the borrower so unfit in the eyes of the lending agencies that transactions are not possible. The Madras Land Mortgage Banks have fared well so far and one important reason for this is that lending has been confined to wet lands only, and only comparatively big cases are considered. The 1922-23 report for the Punjab claimed that at least 6000 members were becoming debt-free annually, and a net reduction of Rs. 30 lakhs was expected confidently in members' debts every year. And in 1936-37, overdue loans in agricultural societies were shown at Rs. 36 lakhs out of a total due of Rs. 646 lakhs! The percentage is only 6. What an encouraging situation! But, we are not told how much of this is due to *real* reduction, and how much to writing off the principal, and how much to formal

renewal! The overdues in Hyderabad and Indore are shown as "nil." In the name of clear exposition, it would have become the authorities to have at least given a footnote to say that this zero was due partly to writing off and partly to renewals. The Behar & Orissa report speaks of the "vast possibilities" of the movement, and the percentage of overdues to total dues from members of agricultural societies, was 90·91! Some of the reports are even romantic. In the U.P., a member got a number of offers of brides soon after he became a member of a co-operative society, whereas before that, he could not secure even one offer on account of his poverty! In Madras, land values were explained to have risen by 100 per cent on account of the starting of co-operative societies. Indeed, "thrift, enlightenment, unity—these represent the moral result of co-operation in India!"

Too Old to Learn and too Young to Forget

Thus, this thirtyeight-year old child is today too old to learn and too young to forget. Mr. K. C. Ramakrishnan observes as follows in a recent article:

> " In fact, many workaday co-operators do not seem to be aware of the damage done to the cause of co-operation by, for instance, the demand for permission to central banks not only to collect bills for their individual shareholders and depositors, who are engaged in trade, but to discount bills for them as commercial banks do. Apart from the financial risks involved in the discounting of bills—on which ground the Committee on Co-operation have rightly turned down the proposal—there can be no justification from the co-operative point of view in affording facilities for a class of people who have been exploiting producers and consumers all along, and whose gradual elimination has been proclaimed to be the goal of co-operative endeavour. The demand for the co-optation of men in the competitive business world on boards

> of management of co-operative institutions, the desire for investment of surplus co-operative funds in slack seasons in commercial banks, the investment of reserves in gilt-edged securities far in excess of the minimum prescribed for the maintenance of fluid resources—all these tendencies reveal a lack of co-operative idealism, an unawareness of the wide and varied field in production and distribution that could more legitimately utilise co-operative funds."

The only additional observation that need be made is that even the field of agricultural credit has got huge spaces yet untouched by the co-operative movement, and if the latter is feeling like saturated, it is a testimony either of its poor potentialities at the present juncture, or of the unpalatable condition of the environment in which it has been set to work.

THE STATE AND AGRICULTURAL ADVANCEMENT

"The State ought to give the national agricultural interest effective support" said the Economic Committee of the League of Nations, but the actual work in India in this respect has been more wishful thinking than tangible reality. Education was said to be the basic thing, but what has been done in primary education? Sir Malcolm Darling's words are most eloquent:

> "It is credibly stated that now almost all children (in the U.S.S.R.) attend school for at least 3 or 4 years. Compared with this, India with less than 10 per cent of her population literate, stands completely out-distanced. It is true that India's population is more than twice the size of Russia's, but neither this nor climatic conditions account entirely for the difference. Russia has come to regard illiteracy as a disease and has set herself to remove it at whatever cost in the shortest possible space of time. But India continues to see it as *an inherited weakness* and is not too discontented if some small

improvement is registered each decade. The last decade (he wrote in 1934) the improvement registered was a little over one per cent."

Dr. Vera Anstey said:

> "Great as these difficulties are, however, they become almost insignificant in comparison with the overwhelming and ubiquitous difficulty of spreading the gospel of co-operation in the face of the illiteracy and lack of education of the cultivators as a whole. Here the Government can do more by indirect than by direct methods, as paternal help leads to a filial acquiescence rather than to the desired independence and self-help."

Have we got even a fifty-year programme with regard to vital diseases like illiteracy and hereditary debt? In the meanwhile, substantial parts of available funds are being diverted to the establishment of new universities.

NEGLECT OF SOCIAL CAPITAL

The positive neglect of the moneylender as a means for serving agricultural financial needs, by the State in India, and even the animosity nurtured against that class in most of the recent hurried piecemeal legislation, looks very much like the neglect of well-known old roads by the present-day P. W. D.'s of modern India. There is so much social capital trained for the business and we have left a bird in the hand in the hope of getting two in the bush: we have neither at present. Why should not some facilities be given to the moneylenders, and why should not they be utilised in reorganising agricultural finance? An enthusiatic inspector persuaded a local moneylender to deposit a fairly large sum in the local rural society at 8 per cent for two years at a time when central banks were lending at 9 per cent to primary societies. A few years after that, that inspector left on transfer, and repayments fell off. A new regime, members managed to borrow a fresh loan, this time from the

central bank. More than a decade passed. The society degenerated and arbitration awards were sent for execution against almost every member. The moneylender applied time and again for refund of his deposit, but no notice was taken by the department. When small collections were realised through executions of awards, the co-operative department, by rule of thumb, ordained that the central bank should get two-thirds and the moneylender should get one-third of the collections—although the moneylender's deposit was prior and the central bank loan came afterwards. One such incident should be enough to alienate moneylenders from the movement in a whole province. Dr. Mathai pointed out:

> "It may be noted that Sir Edward Law's Committee on Co-operation (1901) went the length of formulating a definite scheme for utilising the existing moneylending agency. Their proposal was that moneylenders who were willing to submit themselves to registration and to keep their accounts in forms prescribed by Government, should be accorded certain special facilities. They proposed, especially, that loans made by moneylenders for productive purposes at a rate of interest not exceeding 12 per cent should be recoverable by summary procedure provided that the debtor had agreed at the time of taking the loan to subject himself to the contingency of this procedure. Nothing came of the proposal."

Surely, the average rural moneylender in India is much more responsive than the average raiyat, and a policy of kindly accommodating him in the chain of finance, with the Reserve Bank of India linking up at the top, at the same time bringing round the village moneylender to systematic accounts and returns would meet financial requirements of the villages more than halfway. The rest of it could be provided for by facilitating commercial banks lending for short terms on the security of produce. The idea that commercial banks cannot manage short-term agricultural credit,

and that co-operation is the only conceivable means, has no foundation in fact. If only due care had been taken in the past to facilitate commercial banks doing short-term agricultural credit work, one virtue at least would have remained in agricultural finance, namely, business-like procedure. But, with co-operation leading the strings, co-operative rural credit has degenerated into part charity, part red-tape. The following extract from the *Economist*, dated October 5, 1940, summarises the position with regard to British agricultural credit:

> "As the system of agricultural credit functions in this country at present, it is evident that the solution of the problem cannot be found outside the commercial banks. It is on them that the farmer depends in all but quite exceptional cases, and if the total credit granted to the agricultural industry is to expand appreciably it is from them that additional facilities will have to come. The Ministry of Agriculture has recognised this fact in devising its plans for meeting the demand for additional credit which is bound to arise in the coming year. In co-operation with the banks the Ministry has arranged that nominees of the banks join the County Executive Committees. All difficulties regarding the grant of adequate credit facilities to farmers will be submitted to these nominees who are to be known as Farm Credit Liaison Officers. The Executive Committees wield very wide powers in the formulation of farming policy throughout the country. It is to them that most of the complaints regarding inadequacy of credit facilities are sent. For, more often than not, it is the absence of adequate credit facilities which is put forward as the excuse for not complying with the orders of the Committees. Now that the banks will be represented on them, the machinery for assessing and dealing with these complaints should function far more rapidly and smoothly than previ-

ously. The representation of the banks on the County Committees must not be taken to indicate a new departure in their agricultural credit policy. This step of liberalising their farming loans occurred on the outbreak of the war and the move accorded with the general instructions regarding advance policy which the banks then received from the Treasury. In granting fresh advances to farmers, the banks must continue to pay due heed to the credit worthiness of the borrower and the ultimate safety of their asset. For the more questionable cases, the facilities of the Agricultural Requisites Assistance Scheme will be available, though they will doubtless not be as abundantly forthcoming as some of the critics might desire. Cheap credit is not the only thing needed for successful farming."

In other words, what is not at all clear is how the authorities in India persist in giving so much importance to this movement of rural co-operation which at best holds out hope only for the distant future, and how in anticipation of a co-operative millennium they alienated the co-operation of an efficient and serviceable class. The Reserve Bank of India has, however to inadequate an extent, begun a policy of linking up commercial banking, and that bank owes not a little to State initiative and patronage. But with regard to rationalising agricultural credit, nothing has been done yet, except the issue of some bulletins (which have received disagreement and disapprobation all round) by the Agricultural Credit Department of that bank. Agricultural long-term credit is so widely different from commercial banking that in fairness to the importance of the problem, the State in India should have inaugurated a special organisation to deal with it, and a later stage might have been reasonably expected for the Reserve Bank of India to link up with such an All-India Farm Credit Organisation comprehending long- as well as short-term credit. As it is, the problem has not been seriously thought of by the authorities. Even in the rut of credit, Sir M. Darling's regret on the slow pace in the

Punjab applies with much greater force to other parts of India:

> "The Punjab Banking Inquiry Committee calculated that if its scheme were adopted, every suitable village in the Province would have a credit society within 15 years. Unfortunately, owing to the financial stringency, four precious years have been lost and very little of the necessary extra staff has been provided."

Sir M. Darling further observes:

> "If the supreme need of the peasant is co-operation, that of his children is primary education."

A sense of proportion in priorities leads one to feel that if the supreme need of the peasant should have been co-operation, that of his father and grandfather was sound and sufficient education, general and co-opertiave. Lord Hailey observed frankly:

> "Our mistake lay in a wide expansion of academic and secondary education before we had laid a sound basis of primary education. We had six universities in India before we had an agricultural institute, and I am not sure that we should have had one then, if an American benefactor had not provided part of the money."

Production and Prices

Justly or unjustly, so little is produced from land in India and so much is taken away from the actual product that the *net* remainder works in a high majority of cases at less than the general *de facto* wage level for unskilled labourers. (Similar is the fate of cottage industrialists.) Thus, this most fundamental problem has two phases:

(1) How the yield could be increased from land, and

(2) How to enable the agricultural workers—whether occupants, tenants or labourers—to secure respectively a net minimum remuneration for their contribution to production?

The following figures show how poor the yield from land is in India:

Sugarcane Growth in 1937

Country	Area under the crop in millions of acres	Yield of unrefined sugar in millions of tons.
Argentine	0·445	5·279
Australia	0·257	5·434
Egypt	0·067	2·090
Formosa	0·259	7·5532
Java	0·237	11·702
Peru	0·079	3·261
U. S. A.	0·245	4·828
India	3·818	5·307

Production of Rice in 1937

Japan	7·879	12·089
India	72·277	26·737

Yield Per Acre in the Principal Rice-Growing Countries

Country	Yield per acre in lbs.
Spain	5800 (1932)
Egypt	3006
Italy	4880
Japan	3417
Siam	1418
India	1088

Production of Wheat in 1937-38

Country	Production in million tons	Yield per acre in lbs.
France	9·2	1659
Germany	4·4	2016
Italy	7·9	1392
Argentine	9·0	1052
India	10·8	678

Production of Cotton in 1937-38

Egypt	2·06	446
U. S. S. R.	4·6	356
U. S. A.	14·3	232
India	5·1	89

This poverty of yield is reflected in the following figures about national income and wealth:

Country	Per capita income	Per capita wealth
	Rs.	Rs.
U. S. A.	2053	9356
Canada	1268	8023
Britain	1092	6371
Japan	271	2308
India (British)	82	441

We have no census of production in this country, but the following figures reveal how unenviable the position of the cultivator is, specially when we remember that the notorious middleman in India swallows practically the whole of

any benefit due to rise in prices, and mercilessly shifts the burden of low prices on to the primary producer.

Price Averages in India in Rupees

Commodity	37-38	38-39	39-40	30-6-39	Peak price 39-40	Price on 29-6-40
Cotton Broach per candy ...	166-0-0	152-0-0	225-0 0	160-0-0	327-0-0	156-0-0
Jute-tops per md. ...	6-12-0	8-1-10	13-10-11	9-4-0	19-8-0	11-0-0
Paddy-Burma-per 100 baskets ...	98-0-0	95-0-0	110-0-0	101-0-0	127-0-0	122-0-0
Wheat per md.	2-12-5	2-2-5	2-13-0	2-2-9	3-9-3	2-7-9
Groundnut per candy ...	24-2-0	21-9-9	27-0-5	26-0-0	31-0-0	24-0-0
Tea per lb. ...	0-11-2	0-9-9	0-11-4	0-10-11	0-12-10	0-10-2

[Note the comparative stability of tea due to strength of organisation.]

These figures must lead to the only conclusion possible: some plan must be adopted for securing minimum prices for the primary producer, at any rate in the case of important crops. The fixation of minimum prices for jute in Bengal, and for sugarcane in Behar and the U. P., and recently in Mysore, and the distribution by the Mysore Sugar Company of a bonus to the canegrowers out of their profits for the last year—these are highly suggestive. In perturbed times, Government think it necessary to fix minimum prices for Government securities and chief stocks and shares, and the justification for similar minima is much greater when prices of primary products collapse steeply. In India, price control is much more called for at the bottom, not at the top.

Some of the yields mentioned *supra* are not realisable in India even on demonstration plots run or supervised by the technical officers. Surely, this is not due to the poverty of the land, the substantial progress made in this country

with regard to sugarcane being proof to show that we have the natural resources, and the only other explanation possible is that our "experts" need to be educated! They must become more efficient. The famous Proefstation Experiment Station at Pasoeroean in Java collects more than £120,000 per annum from a voluntary cess on cane growth. The excellence of wheat yield in Italy was largely due to the ramification of demonstration plots all over the country. The first step would therefore be the establishment of Government Demonstration Plots with anything like the yield in the respective "best" countries.

The following extract from the *Economist* (April 13, 1940) tells a different tale in Russia:

Soviet Agriculture

Item	1913	1928	1932	1937	1938	1939
Total production-1926/27 million roubles ...	...	*13,980	13,072	20,123	...	...
Total sown area million hectares	...	113	134·4	135·3	136·9	...
Grain harvest—million metric quintals ...	810	733·2	698·7	1,082·7	855	950-1050
Livestock—million head:						
Cattle ...	60·6	70·5	40·7	57·0	63·2	...
Sheep and goats ...	121·2	146·7	52·1	81·3	102·5	...
Pigs	20·9	26·0	11·6	22·8	30·6	...
Cotton, etc.—million metric quintals	7·4	8·3	12·7	25·8	29·2	...
Sugar beet—million metric quintals	109·0	65·7	65·5	218·6	210·2	...

"It has been impossible to show anything in agriculture comparable to the achievements of the

* 1927-28 figures from Memorandum No. 12 of the Birmingham Bureau of Research on Russian Economic Conditions.

Soviets in equipping themselves with manufacturing plant. But, even so, the changes of the last ten years have been striking and fundamental. In brief, the trend has been to replace peasant farming by collective farms and State farms, co-ordinated and equipped by regional machine tractor stations, furnishing machinery and machine divers. Only stock-raising, where Soviet achievements still stay obstinately below Tsarist levels, has remained predominantly in the hands of individual peasants. In 1938, there were 3,961 State farms averaging 2,691 sown hectares each: 242,000 collective farms averaging 484·6 sown hectares each, and embracing 18,800,000 peasant holdings; and only 1,300,000 independent peasant holdings.

The key to these changes in organisation has been mechanisation. In 1938, there were 6,358 machine tractor stations, and in them the bulk of the machinery used in Soviet farming is concentrated. They serve the collective farms on a contractual basis and are paid in kind. They serve well over 90 per cent of the sown area of Russia; and the concentration of machinery in these stations reinforces, in the context of Soviet central planning, the concentration of production in the collective and State farms.

The spread of mechanical aids tells its own tale. Between 1928 and 1938, the number of mechanical tractors in use rose from 26,700 to 483,500: the number of combines from practically none to 153,800; and the number of lorries from 700 to 195,800. In 1928, the proportion of threshing done by mechanical means was 1·3 per cent: in 1938, it was 95 per cent. And, in the same period, sowing by hand fell from 74·4 per cent to 12·8 per cent, and harvesting by scythe and sickle from 44·4 per cent to 8·5 per cent. That is to say, that

as yet, the expansion in production has been really commensurate with the spread of machinery. In 1913, Russia, on a comparable area, produced 800—820 million metric quintals of grains. This output was never reached again until 1933: in 1937, a record year, the grain harvest was 1000—1200 million metric quintals; and last year, the second best year in Soviet history, it was 950-1050 millions. The cotton and seed crop last year was 4 times the 1913 figure; and the sugar beet harvest was double the pre-1914—18 level. Recent improvement is, of course, clearly marked. The average yield per hectare, was 7·3 quintals in 1910—14, 7·5 in 1928—32, and 9·1 in 1933—37. Machinery and collectivism are having their effect despite peasant conservation."

Insurance and Warehousing

What has the co-operative movement done in regard to the most vital needs of agriculture, namely, insurance against failure of rains and cattle mortality? No thought appears to have been bestowed on the former, and we have some "dead" figures about cattle insurance societies, everybody knowing that these societies have been defunct long ago. One wonders why these societies have not been cancelled as yet. In 1934-35, animals dead numbered 17, and claims paid amounted to Rs. 614, while the cost of management was Rs. 483. .In 1938-39, in India excluding Burma, one society had Rs. 232 funds! Of course, this cost did not include the proportionate share of the cost of the co-operative departments concerned in India. One could overlook such a state of affairs in years of early growth, but these are the last gasps. We have no details of co-operative non-credit agricultural societies—evidently figures must be uncomfortable. We are not even at A in warehousing. Regulated markets are slowly increasing, but warehousing has been severely dropped out. To prove a token acceptance of the soundness of the movement for warehousing, grants of

Rs. 5000 have been made here and there for constructing godowns of co-operative sale societies, by local Governments, but between rats and bandicoots, human and animal, these grants will lead nowhere. Fire and ratproof warehouses with facilities for large-scale weighment are much more urgently called for than travellers' bungalows and dustproof roads. In the absence of anything like satisfactory initiative and progress by the co-operative movement in these matters, what has the State in India done in order to further national interests along these channels?

AT THE CROSSWAYS

It is not 'hat the authorities are not aware of all this. But it is really a question not so much of honesty of purpose as of its being *accompanied by sufficient grit.* A national government, if and when it comes, would surely look to these things and provide for these perhaps in a better fashion than in Russia, but if we have to wait till then for this, a golden opportunity would be lost for our "Advisers" ' Governments (both provincial and central) for establishing their claims for foresightedness. Dr. Vera Anstey said:

> "It appears that the last few years have been a period of consolidation rather than of expansion for the movement. This is partly due to the financial difficulties of the Government, which have entailed a policy of strict retrenchment, and still more to the economic depression in general, and to the so-called "transitional conditions of agricultural economics."

It is indeed tragic that of all items of expenditure, co-operation should have caught the attention of the authorities for retrenchment (before there was any mentionable expansion), and that "transitional conditions" of an anti-climax trend should have persuaded the authorities to postpone the decision on positive policy.

What has been done by the State in India as to the enrichment of agricultural production which alone constitutes the true basis of all stable prosperity? In 1926-27, the expen-

diture borne by Governments in British India on agriculture was nine pies per acre and 8 pies per head of population. The following table gives more details of a later date:

Direct Expenditure on Agriculture

Country or Province.		Percentage of direct expenditure on agriculture to total expenditure charged to revenue.	Direct expenditure on agriculture per acre of cultivated area.	Direct expenditure on agriculture per head of population.
			Rs.	Rs.
1.	U. S. S. R. ...	18·7	4·24	12·45
2.	Netherlands ...	13·6	6·45	1·63
3.	Finland ...	13·5	3·95	5·82
4.	Germany ...	10·7	3·08	3·33
5.	Norway ...	10·1	8·79	8·79
6.	Switzerland ...	9·5	10·21	6·87
7.	Sweden ...	8·2	5·39	7·63
8.	U. S. A. ...	7·9	1·5	12·37
9.	Ireland ...	6·4	2·41	9·6
10.	Iran ...	3·1	Not available	0·52
11.	Italy ...	3·1	1·466	2·37
12.	Denmark ...	2·8	0·84	1·74
13.	France ...	1·15	0·622	1·91
14.	Gt. Britain ...	0·92	9·066	2·46
15.	U. P. ...	5·3	0·170	0·148
16.	Punjab ...	3·3	0·148	0·170
17.	C. P. and Berar	2·1	0·043	0·068
18.	Assam ...	2·0	0·133	0·076
19.	Madras ...	1·24	0·065	0·045
20.	Bengal ...	1·2	0·070	0·035
21.	Bombay ...	0·96	0·043	0·051

National reconstruction in the villages is no small affair, and stunts like "health" societies and "better living" associations cannot please even the most ignorant and reactionary sections of the population. Co-operation may be the best hope for rural India, but unless and until the State comes in and makes the ground suitable for the proper sowing and weeding of the co-operative plant, unless the ground is cleared and tilled and smoothened, unless the land is properly levelled and embanked, unless the fundamentals are seriously seen to by the State, with anything like a ten-year plan at least, talking of the coming millennium under the moonshine of co-operation would be as futile as discussing the golden age of democracy that is to come into India—without building up a national defence, without the communal psychology in the concentration camp, without learning how to differ in order to agree. Russia when she launched her reconstruction programme, closed down the co-operative movement practically and allowed small beginnings only after making sure that it would not interfere in the general plan of progress, nor serve as in India, as a dummy for progress. In 1934, Sir Malcolm Darling wrote:

> "The example of Russia is of particular moment, for in many ways its conditions resemble India's, and whatever one's political views, one must admit that an immense effort is being made, greater than any in history, to improve the conditions of life for over hundred million peasants . . . . Meanwhile, it is a challenge to all Governments that have to deal with the problem of ignorance, poverty and waste on a large scale to bestir themselves to the utmost."

In 1942, that well-known agricultural economist would surely give a more categorical acknowledgment of the legitimacy of Russian policy. In 1922, agricultural insurance was revived as a State monopoly in Russia, doing fire, hail and livestock insurance. But, under the new economic policy, co-oprative institutions were allowed to continue insurance work provided any large risks were re-insured

with the central State Organisation. In the Ukraine, insurance organisations regarded their functions as temporary and transitional, and considered that:

> "Co-operative insurance and in connection with it, indemnification for damages, is of importance for the socialist State only during the period of transition from the individualist to the collective system of economy. The main interest of the State is, therefore, directed towards actual measures which might prevent the very damages necessitating insurance and indemnification. Co-operative insurance bodies, therefore, from the outset paid attention to this side of the matter."—Dr. N. Baron.

Thus, in the earlier stages they devoted attention to building schemes, supply of fireproof material, etc. It is of particular interest to notice that in Spain, at the time of initiating the insurance movement, the main object was to organise and regulate and methodise State aid to agriculture.

Even in this so-called backward country, there are numerous waterworks, irrigation projects and electric supplies started and worked by the State, and all parties concerned are the better for this. No one has thought it fit to declare that the tendency for spoon-feeding would increase on account of these public utilities. The revival of agriculture is certainly the most important item in any programme of reconstruction, and every fruitful step must be taken to advance along this line. Then, why the State shirked from working rural credit, rural insurance and rural warehousing as State monopolies and thus assisting the constructive work referred to above, and why the State put up a scape-goat in the co-operative movement, could be explained only one way: the problem was very huge and the authorities were not prepared to shoulder it. "If co-operation fails, then will fall the best hope of rural India" said the Royal Commission on Indian Agriculture. If thirtyeight years are not sufficient to forecast the potentialities of this movement for this country at the present junc-

ture, it looks as though the best hope of India in the eyes of the Agricultural Commission, will continue to be a pious hope for centuries. Co-operation may help a tonic process, but before that process can begin, the vital diseases disabling the rural masses must be eradicated, and this can be done only by State agency with a rational schedule of time preferences and rationalised budgets. In his Presidential address to the First Conference of the Indian Association of Agricultural Economics, Sir Malcolm Darling said:

> "The danger is that more may be expected of the co-operative movement than is possible with a peasantry which has not yet learnt the proper use of money, which cannot read an account or write a receipt, which regards social and religious obligations as more important than the satisfaction of economic wants, which tries to make living out of tiny holdings often badly fragmented, and which uses the great blessing of peace for the blind multiplication of the species; which, moreover, has to contend with a climate that saps energy and with a nature that mocks the energetic with the fury of its caprices."

It is high time that the State in India sheds its slothful peace! Dr. Radhakamal Mukerji's view that,

> "as long as the co-operative movement does not link itself with the entire range of methods and agencies for the improvement of income and credit-worthiness of the cultivator, it cannot be rescued from the mire of bankruptcy and the rut of business inefficiency into which it has fallen."

appears to be rather over-optimistic. At the present condition, rural co-operation cannot even constitute a link, however weak, in national planning. The sooner the public and the authorities realise this, the better.

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SUMMARY

In 1938-39, thirty-four years after the co-operative movement was inaugurated in India, there were 1,22,167 societies in all, of which 105,271 were agricultural societies. Out of the latter, 93,767 were rural credit societies. Membership of agricultural societies was at less than 36 lakhs, working at less than one per cent of the total population of the country. Putting the size of the average rural family at 5, and presuming that each member represented the interests of a family, the rural co-operative movement may be said to have affected, in the broadest sense, five per cent of the total population.

While the working capital of the movement was only few annas per head of population, it was Rs. 90 per member of agricultural societies, and Rs. 151 per member of non-agricultural societies. Loans issued during the year averaged Rs. 19* and Rs. 83 per member respectively, while overdues were 12 out of 25 crores in agricultural, and 2¾ out of 20 crores in non-agricultural, societies. If agricultural societies were more efficient, they could have on a modest estimate, lent Rs. 25 crores to the members-raiyats during the year instead of the actual Rs. 6¾ crores, and this should have been no minor factor in increasing the productive power of the country. Government money was Rs. 54 lakhs in non-agricultural, and Rs. 8 lakhs in agricultural societies. To what non-agricultural enterprises Government had lent money. and why agricultural enterprises were ignored, is not ascertainable from the latest blue book issued by the Central Government. Sales of goods averaged Rs. 2·6 to each member, and purchase of members' produce averaged Rs. 2·8.

Granted that a better order of things is desired as quickly as possible, the rural co-operative movement as a means towards this end, in spite of all the claims made for it on grounds of logic, and experience in other countries, has failed in India, and the prospects of success in the near future are as poor as achievements in the past. The rural co-operative movement requires certain preliminaries to be assumed—a fairly high literacy, a level of income above a conceivable minimum, a reasonable amount of economic freedom for the peasant, but these have not been there in rural India, and in the hope of co-operation ushering in these, such problems have been postponed by the State in India. Any little success secured by co-operation in India has been in areas or strata of society in which these preliminary conditions were satisfied comparatively speaking, as for example, in towns, amongst Government servants.

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* Excluding land mortgage banks in which loans issued to individual members averaged during the year Rs. 102·4 for the whole of India, and Rs. 124·5 for Madras.

The most effective service to rural India would be for the State to handle such fundamental problems directly and with a schedule, instead of living on "co-operative" hopes. A quarter of a century of maximum effort by the State to secure such preliminaries, might perhaps make the field more congenial for the rural co-operative movement, and then people would perhaps take to it themselves without any elaborate introduction at the hands of the Government. The present vicious circle in the rural co-operative field in India is mostly the product of State policy, and the only way out of it would be for the State to ensure the success of co-operation in decades to come, by making sure of the pre-requisites. More irrigation works, cheaper and more plentiful electricity, a nation-wide literacy campaign, augmentation of agricultural production by greater expenditure on *real* application of research to local problems, the harnessing of the moneylending class through suitable machinery for agricultural finance, and working of agricultural insurance and warehousing on a national scale as State monopolies—all within the four corners of a ten-year plan—this would be the right beginning: to begin late is better than to begin never. Standards of social welfare changed materially for the better after the last Great War, and they are bound to change more thoroughly after the present war. Any further procrastination in creating the atmosphere for the free play of co-operative forces in rural India, would leave her hindermost—a drag on the world's onward march in social welfare.

Note.—The Paper is based not only on six years' experience I had in the Hyderabad Co-operative Department, but also on close personal knowledge of the Movement in several other parts of India, and instances and trends mentioned herein apply indifferently to all parts of the country. Observations are absolutely impersonal but are based on an "inside" view.

CO-OPERATION IN THEORY AND PRACTICE

BY

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What is Co-operation? I was looking through Mr. Calvert's book *The Law and Principles of Co-operation* to find a suitable definition of co-operation. In his chapter entitled, 'What is Co-operation?' he gives a definition of co-operation from number of authorities and countries. I shall not undertake to reproduce all these definitions here. The definition which has appealed to me most is one by Mr. Herricks; the author of the famous work *'Rural Credits.'* He says, "Co-operation is the act of persons, voluntarily united, of utilising reciprocally their own forces, resources, or both under their mutual management to their common profit or loss."[1] A co-operative society organised corporately aims principally at contributing towards the economic prosperity of its members by joint action. Let us see what is meant by a co-operative society in India. The Indian Co-operative Act suggests (section 4) that a co-operative society is a society which has as its own object the promotion of the economic interest of its members in accordance with the co-operative principles.

Naturally one likes to know, especially, in a legal act as to what are the co-operative principles. But the most tragic and funniest thing is that it leaves to the Registrar the decision as to what co-operative principles are? For further guidance on this point one has to refer to the report of the Maclagan Committee which states:—

"The theory underlying co-operation is that weak individuals are enabled to improve their individual pro-

[1] Quoted by Calvert H., *The Law and Principles of Co-operation*, 4th edition, page 12.

ductive capacity, and consequently their material and moral position, by combining among themselves and bringing into combination a *moral* effort and a progressively developing realisation of moral obligations. *The movement is generally a moral one* and it is individualistic rather than socialistic. It provides as a substitute for material assets honesty and a sense of obligation and keeps in view *the moral rather than the material* sanction." (Italics are mine.) This sounds very fine and inspiring on paper and is a present world Sermon of the Mount.[2]

It is strange to observe that Mr. Calvert who is known to be an authority on co-operation remarks that "it is not primarily an ethical movement but strictly a business one, and many failures in India would have been avoided if this had been more stressed."

Before discussing the practice and the present condition of the co-operative movement in India it seems essential for the sake of clarity that we should first know what are the fundamental principles of co-operation; and I can do no better than briefly mention these as envisaged by the Maclagan Committee.[3]

PART I

The Theory of Co-operation.

1. The first condition obviously is that every member should have a knowledge of the principles of co-operation, if this co-operation is to be real and not a sham.

2. In the formation of a society the first essential is the careful selection as members of honest men, or at any rate of men who have given satisfactory guarantees of their intention to lead an honest life in future.

3. The loans must in no circumstances be for speculation purposes, which, so far from encouraging thrift and

[2] It is fortunate that many prominent persons who were responsible for developing this movement in India, did not take it too literally.

[3] For details see *The Report of Maclagan Committee on Co-operation in India.*

honesty, have exactly the opposite effect. Loans should be given only for productive purposes or for necessaries which, as essentials of daily life, can be classed as productive. The borrowers should be required to satisfy their fellows that they are in a position to pay the loans from the income that they will derive from their increased productive capacity, or that by the exercise of thrift they can effect a margin of income over expenditure which will suffice to meet the instalments of their loans as they fall due.

4. When a loan has been given it is essential that the committee of the society and the other members should exercise a vigilant watch that money is expended on the purpose for which the loan was granted.

If it (the money) is not properly applied it should be at once recalled.

It is further advisable to add to the general supervision of the society, the special supervision of individual members, by taking personal sureties in the case of each loan. In the event of any default of the borrower an instant demand should be made on these sureties.

5. The express object of the society should be the development of thrift among its members, with the hope that this idea of thrift may spread in the neighbourhood. To effect this object loans must be given only when they are really necessary and desirable. Further the development of thrift and of a proprietary interest in the society should be aided by efforts to build up as soon as possible a strong reserve fund from profit. The society must also be encouraged to obtain as much as possible of its capital from the savings which its teachings and example have brought about among its members and their neighbours.

With all these must go the elementary business principles of honesty, punctuality, proper accounts, and payment when due. To ensure all this there must be adequate control from within, increasing vigilance and supervision by the office bearers and continuous effort by members in learning the principles of co-operation, in watching others, in working hard and observing thrift, and in punctual payment of their own loans as they fall due.

To sum of these points, the basic idea of a co-operative credit society is to capitalise honesty and character. It is a form of mutual help between persons who know each other rather intimately and that is the main reason why the co-operative law insists that the co-operative credit societies should not be big and should be confined to one village or to a class of persons who know each other well. The underlying idea is that in a small group like this it will be possible to capitalise honesty and character, and loans could be made to those people who have no reliable material security to offer but are respected and honest persons. Moreover, in a system like this, in theory at least, the credit and especially the use to which such credit is put, could easily be controlled as every one knows every one else's business. It was presumed that this group would be able to collect the savings from among themselves, or at least there would be some people who would come forward with it and deposit it in the village society which would lend it to needy members, or with the mutual security it would be possible to borrow from other institutions where surplus funds were available. It was for this reason that it was said that the co-operative movement capitalised the honesty and linked the farmer in the remotest village with the biggest capital markets of the world. The system was to work like this:—The village societies borrowed from the district banks, the district banks borrowed from provincial banks and the provincial banks raised loans either by way of debentures or attracted deposits in the money market or in big cities. In a co-operative society all initiative should come from within—the need of helping one another must be felt by the people themselves and a fairly large proportion of funds must be available locally for distribution among the needy members. If such is the case it will be possible to supervise the spending of such loans and the borrowers can be questioned, and in some cases also advised as to how the loan is to be spent. But it is extremely regrettable that this glorious ideal has been very seldom realised in practice. What has happened is that in most countries the small farmers have been unable to obtain money or to borrow it at reasonable rates of interest. Political pressure

has been brought to bear on the Governments to do something and as a result the government had to decide to start the co-operative movement. In several countries this movement has been virtually sponsored by the government; the ideal of self-help has been non-existent from the very beginning. Those who have joined the movement and have become members of the co-operative societies have done so with the desire that they should be able to borrow as much money as they possibly could. In an ideal co-operative society there is a joint and several unlimited liability of members and this ideal has been insisted upon in almost all co-operative societies. As a result of the strict observance of this rule—that is, that every village co-operative credit society must have an unlimited liability, the well-to-do farmers who are not in need of money do not come into the movement, so the major part of the ideal—that a co-operative society was to be an association of men who had some spare funds to invest and of those who wanted to borrow, changed into a society which had no funds at all to invest but all members of which wanted to borrow. The result was that all co-operative societies became societies of borrowers and in a situation where every body is a borrower, no question of supervision or the control of the loans can arise. It was a case of helping one and being helped by the other—a policy which resulted in almost a catastrophe, and thus the whole movement has become very weak.[4]

The sponsors of the co-operative movement in India have been constantly harping in season and out of season on the moral tunes of this wonderful movement which in its earlier days was believed to solve all the ills of this world which were created by capitalistic system of production. The Royal Commission on Agriculture in India went as far to say that if co-operation fails the best hope of India fails. The following observations of the Maclagon Committee may be studied with a view to see how far these fine ideals have been realised.

[4] The truth of this assertion can be judged from the practice of co-operation in this country. For details see the author's memoranda on the subject prepared for the League of Nations and published in *The Indian Journal of Economics*, October, 1939.

"The theory of co-operation is very briefly that an isolated and powerless individual can, by association with others and by moral development and mutual support, obtain, in his own degree, the material advantages available to wealthy or powerful persons, and thereby develop himself to the fullest extent of his natural abilities. By the union of forces material advancement is secured, and by united action self-reliance is fostered, and it is from the interaction of these influences that it is hoped to attain the effective realization of the higher and more prosperous standard of life which has been characterized as "better business, better farming and better living"."

PART II

Co-operation in Practice.

I have deliberately refrained from making any commands on the theory of co-operation. As theory it is excellent. Its principles are sound. Unfortunately the practice of co-operation in India has been quite contrary. What grieves us most is the unrealistic attitude of a number of co-operators in this country to fully appreciate the present situation and their unwillingness to face the gravity of the situation in all its bare and dark aspects. Under the heading, "Its (co-operative) credit essentially a controlled credit," the Madras Committee on Co-operation, observes as follows:—"Co-operative Credit has always been distinguished from money lender's credit. The moneylender is not concerned with the use to which the amount of his loan is put by his client, while the theory of co-operative credit requires that the need for the loan should be scrutinized, that the application of it for the purpose of which it is taken should be supervised and controlled and the recovery of it in due time should be insisted upon. Co-operative credit is essentially controlled credit in so far as societies really influence borrowers towards the true use of credit! The position has been well put thus:—"The important point about a co-operative society is that loans are only granted to a member whose moral standing, honesty and solvency have been scrutinized by all the other members of the group before his

administrative board as being of service to the borrower and in keeping with his means and the security he could offer. Lastly, as a rule, a guarantee by one or more members is required. A close watch is kept on the use made of the sums lent and the society has to be satisfied that they are being applied for purposes intended and are really improving the farmer's position and not simply increasing his indebtedness.

"We have only to add that in order to secure such a control the by-laws of society provide that the loans should be advanced only for useful and productive purposes, that they should be recalled at once if they have been misapplied, and that in addition to the general supervision of societies, a special supervision of individual borrower through the system of personal security is necessary."

In practice frankly speaking there is no difference or at least very little difference between the credit provided by the co-operative societies and the money-lenders. Even the interest rates charged by the majority of co-operative societies (from 12 per cent to 15 per cent) before the depression, were by no means low considering all the risks involved in lending and do not compare very favourably with the rates charged by good moneylenders.

As regards the supervision exercised in granting loans and the pressure exercised in collecting overdues, these have been non-existing in practice. The truth of this may be realised from the tables which give figures regarding the position of overdues in Agricultural Credit Societies in British Indian Provinces for the year 1936-37."[5]

Province		Amount of loans outstanding Rs. Lakhs.	Amount Overdue Rs. Lakhs.	Percentage of overdues to outstandings
Madras	...	351·99	162·07	46·1
Bombay	...	247·36	128·24	51·8
Bengal	...	396·39	345·80	87·4
United Provinces	...	75·91	36·21	47·7
The Punjab	...	629·40	30·34	4·8
Bihar	...	104·18	96·40	92·5

[5] *Report of the Madras Committee on Co-operation*, 1940, p. 129.

The above observations made by the Madras Committee regarding the overdues further show the lack of proper pressure exercised by those who are incharge of the credit societies.

Period of Overdues Analysed.

What is however a matter for anxiety is the age of overdues in these societies. An examination of loans in 89 bad societies—three or four at random in each district—has disclosed that of the total loans aggregating to Rs. 3·65 lakhs on 30th June 1939, Rs. 3·28 lakhs (90%) were overdue, of this amount, Rs. 2·67 lakhs were overdue for five years and Rs. 0·14 lakh were overdue between four and five years, Rs. 0·19 lakh between three and four years, Rs. 0·12 lakh between two and three years, Rs. 0·11 lakh between one and two years and Rs. 0·15 lakh for less than one year.[6]

Progressive Deterioration of the Movement.

Co-operative Societies in India have been divided into A, B, C and D class societies according to their financial soundness and their co-operative spirit. The progressive deterioration of the co-operative movement all over India can be seen from the fact that the number of societies which approach near co-operation is very small indeed. In Bengal for instance the number of A & B class societies was 9·6 per cent in 1934-35, while the percentage of C class societies during the same period increased from 57 to 70%. Analysing the situation in Bengal Dr. Niyogi observes:—

"In some districts there were no A class societies in 1934-35. In one district (Malda) there was not one single A and B class society at all."[7]

In the Punjab where co-operation seems to be at its best the number of A class societies in the whole province in 1933 according to Mr. Atta Ullah was 302 while the number of C class societies was 12149.[8] The total number of A class

[6] Madras Committee, *op. cit.*, p. 129.

[7] Niyogi, *J. P. Co-operation in Bengal*, p. 41.

[8] Atta Ullah, *The Co-operative Movement in the Punjab*, p. 121.

societies in Madras in 1937-38 was 170 while the number of C class was 7830. "We may perhaps examine the position from another point of view, of 7336 societies of all classes indebted to 24 central banks in the province, 4887 societies (or over 60%) were in default to them on 30th June 1939."[9]

The Co-operative Ideal as Found in Practice.

Before I give my own reasons for comparative failure of the co-operative movement in India, I would like to associate myself with that section of the witnesses and members of the Madras Committee on Co-operation who hold the following views:—

"The development of the movement has neither been sound nor efficient, that it has been no more than a money-lending concern, that, as it has not sprung out of the felt needs and a realization of its utility by the people, it has not acquired the strength and vigour natural to popular movement." They further state "that the movement has during the past few years shown signs of deterioration as evidenced by the steady accumulation of overdues and bad and doubtful debts and an increasing number of liquidated societies, that the movement has not yet touched a large section of the rural and urban classes that it has not reduced the indebtedness of the ryots, that it has not propagated the principles of thrift, that quantity rather quality has been aimed at, and that growth has been lop-sided in so far as the aspect of credit has received an unduly large share of the attention of co-operators." It is instructive to note in passing the reasons which these co-operators assign for the rather gloomy picture of the movement they have drawn. "Lack of suitable persons to run co-operative institutions, general illiteracy among the mass of rural population, absence of an efficient machinery to propagate the principles and practice of co-operation, to assess the credit—worthiness and repaying capacity of agriculturists, to arrange for the prompt supply of credit to the people and make timely recoveries, the backward economic condition of the rural classes, absence

[9] Madras Committee, *op. cit.*, p. 30.

of select membership in societies, lack of proper leadership in village and spirit of disinterested and selfless service among the panchayatdars, introduction of politics and factions into the management of co-operative institutions, want of business talent and method among office-bearers, inadequate provision of advice, guidance and effective supervision, failure to cater to all economic needs of members and premature deofficialization of the movement" —these are the principal reasons which they have given for what they consider to be the unsatisfactory position of the movement.[10]

In the co-operative circles one hears a good deal of nonsense about the gospel of co-operation which is 'all for one and one for all.' How this wonderful gospel has worked in practice may be realised from the following account given by Messrs Jathar and Beri which is based on a number of detailed studies.[11] It must, however, be admitted that all these benefits,—moral, educational, as well as purely economic—have been secured only in a very small scale. For example, much yet remains to be attempted and achieved in the field of non-agricultural co-operation. Even agricultural co-operation is practically confined to the sphere of credit and here too, as Sir M. Visvesvaraya remarks, 'all that has been done amounts only to a scratching of the surface.' In many tracts, overdue on loans and failure to repay are distressingly common. Moreover as the Central Banking Enquiry Committee point out, the credit provided by the co-operative organisation is still much too dear for the cultivator in some provinces and it is necessary to take further steps to effect a reduction in the present rates of interest.

It is also clearly necessary that we should frankly recognise, in order to be able to remedy the various defects in the actual working of the movement in India to-day, such

[10] Report of the Madras Committee, *op. cit.*, p. 242.

[11] Jathar and Beri, *Indian Economics*, Vol. I, p. 351 (Fifth Edition, pp. 354-55). *Report of the Central Banking Enquiry Committee. Report of the Royal Commission on Agriculture. Report of the Burma Committee on Co-operation.*

defects as unpunctuality of payments, fictitious payments, excessive overdues, defective audit, inefficient control, benami loans, nepotism, red-tapism, inelasticity, dilatoriness and inadequacy of co-operative finance, etc. The staff appointed to teach members true principles of co-operation is itself ignorant, illtrained and unfit for the work entrusted to it. Managing committees and presidents are too often allowed to usurp all power, to the detriment of the rank and file of the members; and office-holders and leaders of the movement often display 'an undue delicacy and lack of moral courage in dealing with the faults of misdemeanours' of the members, and put up with serious irregularities in the hope that a government officer will come one day and put things right. They show a great dislike 'to incur the unpopularity attendant on stringent action taken against recalcitrants and the recovery by legal process of overdue debt.' Many of the members seem to believe that the co-operative movement is merely a state-managed affair and that it is Government money which they borrow from their society. The failure of members to understand properly the aims and objects of co-operation engenders in them an attitude of apathy and indifference which is fatal to the movement. They are also apt to take only a mercenary view of their society, regarding it merely as a cheaper substitute for the village money-lender, and thus unable to identify themselves with the movement in the whole-sound manner that is essential for its success.

My Own Observations.

Quite contrary to the expert opinion in the country, I am of the opinion that co-operation, as outlined in the first part of this paper *viz.*, the pure theory and high ideals and principles, is inapplicable to economically undeveloped and backward countries. The provision of credit is a proper function of the banks and other allied financial institutions and it is best if this function is entrusted to such institutions. It has been discovered that in a number of countries ordinary joint-stock banks have failed to cater for the credit requirements of the farmers. In such cases the remedy is not co-operation but state

banks.[12] Pure co-operation has not succeeded in any part of the world in solving the credit needs of the farmer, and the sooner we get out of this delusion the better. In the English speaking countries of the world the example of successful co-operative credit in Ireland has always been hurled at those who have ever suspected the *bonafides* of this movement. But I may be permitted to point out that if Ireland is the standard by which the success of the co-operative movement is to be judged, then there could be no better example to show conclusively the failure of the movement. There are, or to be more correct, there were in 1935, only a dozen co-operative societies in the Irish Free State providing credit to the farmers, and their condition was none too satisfactory. The other examples of successful co-operation in the field of agriculture are the Scandinavian countries, but it must be understood that co-operation in these countries is working in fields other than credit, and the movement has been working merely as a business proposition rather than any sacred ideal.

Co-operative credit has been comparatively successful in India in the province of the Punjab, where co-operative societies are considered as Sarkari (Government) banks, which means that the success is due more to the breaking of the co-operative principles than by observing them. If these societies had been pure and simple state banks these would have worked still better. It may sound rather strange, but it is a fact, that there is almost complete absence of independent non-official element associated with the co-operative movement in the Punjab, in the sense in which it is understood in the C.P., Bombay and Madras. The oft quoted success of the Central Co-operative Land Mortgage Bank in Madras does not in any way affect my contention, but as a matter of fact it goes to prove it. It is a misnomer to call that bank co-operative when its debentures are guaranteed by the Government. To say the least it is a semi-state bank and it would have worked even better if it had been a full-fledged state bank. Following in my opinion are the funda-

[12] For details see Qureshi, *State Banks for India*, Macmillan, 1939.

mental causes of the failure of the co-operative movement in India.

Some Fundamental causes of the failure of the Co-operative Movement.

The first and the foremost cause of the failure is, as I have already observed, that co-operation is not suitable for economically backward countries. Such countries stand in need of vigorous and comprehensive state action rather than diluted voluntary help. Secondly, undue stress was laid on the credit side of the movement and other aspects, such as, for example, marketing, which in my opinion are very important, were until recently neglected. Thirdly, the type of society envisaged for India—a single purpose society with unlimited liability, was most unsuitable for the country and it made the movement a group of borrowers, achieving the wonderful ideal 'one for all and all for one' in helping each other and being helped by others in borrowing from outside resources as much as they possibly could and in withholding the repayment as long as manageable. Fourthly, and this I regard as the most important, the movement was entrusted to a type of a civil servant who in spite of his proved ability and character in other fields of administration, was most unsuitable by temperament, environment and his training to undertake an expert job of this type. These civil servants were further handicapped due to their limited stay in the department. As a number of these were executive officers, the villager naturally began to regard their suggestions and requests as orders and commands with the result that the village societies began to be regarded as government banks and the movement degenerated from its high ideals to an ordinary state department, but unfortunately devoid of full state control. If one reads a co-operative act one finds that next to God Almighty all other functions, responsibilities, directions, guidance and control have been entrusted to a Registrar of the co-operative societies who, as I have already remarked, was handicapped in many ways to fulfil these obligations to the extent it was expected of him. Lastly, I may be permitted to add that one will be more than

an optimist who still believes in the gospel of co-operation in solving the credit needs of this country, after having seen its working in the country for nearly forty years.

SUMMARY

This paper has been divided into two parts. In part I, I have described the theory of co-operation. In part II, I have shown with the help of numerous examples how this theory has worked in practice. Quite contrary to all the expert opinion in the country, I am of the opinion that the pure theory of co-operation is inapplicable to economically undeveloped and backward countries. In such cases the remedy is not co-operation but state banks. Pure co-operation has not succeeded in any part of the world in solving the credit needs of the farmer, and the sooner we get out of this delusion the better. In my opinion the main causes of the comparative failure of the co-operative movement in India are firstly, instead of facing reality, we have been side-tracked. Secondly, undue stress was laid on the credit side of the movement and other aspects were neglected. Thirdly, the type of society envisaged for India—a single purpose society with unlimited liability, was most unsuitable for the country and it made the movement a group of borrowers, achieving the wonderful ideal 'one for all and all for one' in helping each other and being helped by others in borrowing from outside resources as much as they possibly could and in withholding the repayment as long as manageable. Fourthly, and this I regard as the most important, the movement was entrusted to a type of civil servant who in spite of his proved ability and character in other fields of administration, was most unsuitable by temperament, environment and his training to undertake an expert job of this type.

RURAL CO-OPERATION: ITS SCOPE IN INDIA

BY

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The technical sense in which we use the term "co-operation" refers to a faith apart from its realistic nature of a particular type of economic organisation suited to a distinct class of human beings amidst specific environments of life.

"The co-operative faith", as Marshall put it long ago, "is a belief in the beauty and the nobility, the strength and the efficiency, of collective action by the working classes, employing their own means, not indeed suddenly to revolutionize, but gradually to raise, their own material and moral condition".[1] As a business method it economises the efforts required to obtain certain desirable ends and by "utilising a great waste product."[2]

Let us examine the scope of cooperation in the light of Marshall's analysis and we shall then apply his criterion to determine its scope in our country.

As a faith, according to Marshall, every cooperator must have a belief in the beauty and the nobility of the collective action by the working classes. This refers to the cardinal doctrine that "he who lives and works only for

[1] Vide *Memorials of Alfred Marshall*, edited by A. C. Pigou, p. 229.

[2] Cf. "For in the world's history there has been one waste product, so much more important than all others, that it has a right to be called The Waste Product. It is the higher abilities of many of the working classes; the latent, the undeveloped, the choked-up and wasted faculties for higher work, that for lack of opportunity have come to nothing. Many a fortune has been made by utilising the waste products of gas works and soda works; it has been very good business. But a much greater waste product than these is at the foundation of fortunes of co-operation."—*Memorials of Alfred Marshall*, edited by A. C. Pigou, p. 229.

himself or even only for himself and his family leads an incomplete life; to complete it he needs to work with others for some broad and high aim."[3] Other types of enterprise for developing the world's material resources are practical and business-like and, when properly conducted, they seek to benefit their own members. They are associations of the strong to become yet stronger and bolder, unyielding and exclusive. They have, however, not the "direct aim to improve the quality of the man himself." But the beauty and nobility of cooperative action is to be "found in the cooperative endeavour to diminish those evils which result to the mass of the people from the want of capital of their own; evils which take the two-fold form of insufficiency of material income, and want of opportunity for developing many of their best faculties."[4] Similarly every cooperator must have a belief in the strength and efficiency of the collective action of the working classes, who, "though weak in many ways, are strong in their numbers. They have a great power in their knowledge of one enother, and their trust in one another; and they can much increase this force, for by joint action they can make their little capital go a long way towards emancipating them from a position of helpless dependence on the support, and the guidance, and the governance of the more fortunate classes."[5] And this emancipation, Marshall thought, would come "not indeed suddenly" but gradually by a "raising of their own material and moral condition."

From the foregoing analysis, we find two things are necessary for the creation and ultimate practical fruition of a cooperative business unit. First, there must exist a belief amongst the cooperators in its "strong and fervent and proselytising faith." Secondly, there must be the belief that their numerical strength can be made economically useful through mutual trust and mutual knowledge. These beliefs will act as great stimulants to inspire the cooperators to concentrate their energies on their purposes and to devote

[3] *Ibid.*, p. 228.
[4] *Ibid.*, p. 228.
[5] *Ibid.*, p. 228.

themselves patiently till their pursuits are successful and the ends achieved. The selfish monetary gains by way of large dividends are the stimulus to all other types of business organisations where the members are not actuated by any altruistic motives.

Now the question is: To what extent these beliefs exist among our rural folk? Can we, academic economists, practical businessmen or actual administrators, speak out with emphasis that that idealism which has given to co-operation more than an economic impulse, is present in the co-operative movement in India, not only in its origin but retained throughout its growth? No answer can be given without a reference to the working of the co-operative societies. There are, indeed, now varieties of co-operative organisation but we can say, without any fear of contradiction, that the co-operative movement, like the economic structure of our country, is mainly agricultural and here too developments have taken place chiefly on the credit aspect. The village banks form the very foundation on which the structure of the co-operative movement is based. And the history of the development of these credit societies will reveal the various circumstances amidst which these societies were established.

The movement, in almost all countries where it has developed, has been essentially, in its origin, a voluntary or self-help movement. State aid has, in later years, played a part, but it has been an auxiliary and subordinate part. In many cases, the state has only come in to help after success was assured, as in Denmark, where even today the assistance given by the state is relatively very limited, and in Germany, where despite the traditions of state-functions, the remarkable fact has been the very carefully limited sphere of state action and the healthy self-reliant character of the movement. So it has been also in Belgium, in Holland and in Italy. Even in U.S.A. where in recent years, first by commissions of enquiry, and later by a very large financial provision for the assistance of agricultural credit and by special attention, on the part of the Federal and State Departments of Agriculture, to the cooperative marketing of farm produce, the State has actively assisted the development of cooperation,

the early growth was the outcome of voluntary effort and the success has depended and will continue to depend on the vigour of the spirit of self-help. In France, co-operative credit was started spontaneously by the agricultural community, though the state has had, at a later stage, an important part, and in some respects, even seemed to threaten the self-reliance of the movement.[6] Even in Russia, the taking over of the business of many co-operative societies and their unions by organisations entirely controlled by the local Soviets and the Government proved no more than a passing phase and at the end of civil war in 1921, the new economic policy of the Soviet Government was established with the promotion of all forms of cooperation, especially among the peasants, as one of its essential features.[7]

But in India, the movement had never been spontaneous. Either it depended on the official initiative, or on the endeavour of a band of public spirited enterprisers but always under governmental direction and control. There was hardly any instance in which the urge came from the quarters where it was most needed. Nor were its principles fully realised and completely acted upon when the movement was brought home to them. Thus it appears that Sir Horace Plunkett was right in his observation that "it is not a spontaneous growth but a Government policy."[8] In many instances, "it (Government) sought to multiply central banks, as fast as possible, in some places before many societies were started, and to finance members fully for all purposes including *sradhs*, marriages and debt-redemption in order to release the debtor completely from the clutches of the Mahajan . . . . In many areas, the ground was never thoroughly prepared and societies were started, as an early Registrar wrote, 'by standing in a field with a bag of rupees'."[9] This overzealousness on the part of the early

[6] Vide *The Final Report of the Agricultural Tribunal of Investigation.*

[7] Cf. Ratner, *The Agricultural Co-operation in Soviet Russia.*

[8] *Year-Book of Agricultural Co-operation*, 1930, p. 201.

[9] Vide *Hubback Committee Report*, p. 11.

sponsors to release the indebted agriculturists from the clutches of the money-lenders was responsible for the unhealthy expansion of the movement and they never realised that unless the indebted villagers were first greatly inspired, through education and propaganda, with the two beliefs noted above, the future of the movement which these selfless workers took great pains to establish would ultimately lose its purpose, nay, even might do "disservice to the cause it represented."[10] They always felt that their support, their guidance and sometimes actual governance by them of these societies would be all that would make the movement successful and overlooked the basic fact that cooperation is "self-help made effective by organization."[11] The result had been that thrift was not much in evidence and the proportion of owned to borrowed capital in societies remained small while as a result of the policy of "full finance" many loans from the very outset were long-term loans. And a system which often provided more money than was legitimately needed by the members of the societies, and still more frequently more than they could repay in the few instalments fixed, must have seeds of all future troubles which the movement now experiences due to a piling up of overdue loans.

There was, therefore, no sign of any inspiration amongst the rural folk, in the origin of the movement, in our country. It may be assumed that, with its development, village people will be gradually initiated and the later history would reveal that earnestness which was absent in the early period. There had been, in certain provinces, phenomenal increase in the number of societies and *prima facie* it appeared that the movement was on its onward march. But all subsequent provincial committees on co-operation have clearly laid it down that there has been a steady and continuous deterioration in the quality of these societies. A large per cent of these new additions is now considered dormant and their position with reference to their vitality discloses the disquieting fact of huge overdues.

10 Vide *Gole Committee Report*, p. 28.

11 *Plunket Co-operation*, p. 7.

What, then, are the causes of these overdue loans which are considered to be the chief reason of failure of the movement in India? The Townsend Committee of Madras were given several reasons[12] for this inordinate increase in overdues. An analysis of these reasons will show that bad harvests are one amongst many. There are others more powerful which can be traced to a lack of that invigorating and inspiring belief, amongst the members themselves, which kindles a spirit of watchful and diligent public service and

[12] The following are principal reasons given to the committee for this increase in overdues:—

(1) bad harvests;

(2) illiteracy and ignorance of co-operative principles in primary societies, and indifference of panchayetdars, who are, in many cases, themselves defaulters;

(3) the lack of proper supervision due to ill-paid and ill-equipped non-official staff;

(4) the sudden withdrawal, without due notice, of the department from supervision;

(5) failure to recognise their financial and co-operative responsibility on the part of central banks;

(6) an exaggerated sense of security in the minds of financing institutions, which is based on a wrong impression of the implications of unlimited liability, and failure to realise the seriousness of the results of enforcing that liability;

(7) the lack of proper attention to the granting of extensions;

(8) the granting of loans without proper consideration of their purpose and of the repaying capacity of members;

(9) *benami* transactions;

(10) the fact that even when penal interest is levied, the rate of interest charged is lower than the market-rate in many districts, and members who have also borrowed from money-lenders in consequence repay the latter first. Decree interest is also lower than the market-rate; execution proceedings present much difficulty and the low rate of interest encourages defaulters to raise every possible obstacle; and

(11) the failure to take prompt and sufficient steps for the recovery of overdues.—*The Report*, pp. 37-38.

destroys that moribund, timid, and slipshod way of doing things which move out of an external momentum and suddenly stop as soon as the outside force is withdrawn. The Committee, therefore, felt that many of the evils can only by rectified by better work generally in cooperative institutions and for this the better education of panchayetdars is particularly necessary.[13] Prof. J. P. Niyogi also, while describing the development of the movement in Bengal, points out that "it is a misreading of the history of the co-operative movement of the province to suggest that the world-wide depression of 1929 is chiefly responsible for its general deterioration. As a matter of fact the seeds of decay had been sown broadcast very early in its career by a disregard of those rules of prudent finance and efficient administration on which the co-operative movement must necessarily rely."[14] He definitely accuses the Committees of management of contributory negligence that is "responsible for the setback in the movement."[15]

Such expert opinions can be multiplied to show that the chief reason of the failure of the movement is the defective human material which was supposed to handle actual day-to-day administration. Embezzlement and misappropriation of funds by honorary workers are not rare in any of the provinces and an attempt to utilize the institutions for personal gain more than for collective benefit is rampant everywhere. The problem is, therefore, to prepare a superior type of human material which will convert the apathetic committees of management into active, sympathetic, honest, watchful and diligent bodies. Everywhere now-a-days we find schemes for rehabilitating the co-operative movement, and the task of reconstruction has been already taken in hand in various directions with special reference to the limitations and handicaps of village credit societies. Whether the village banks can or should tackle the whole problem of agricultural indebtedness, whether with the

[13] *The Report*, p. 38 & para 51.

[14] *The Co-operative Movement in Bengal*, p. 4.

[15] *Ibid.*, p. 4.

rehabilitation programme we should simultaneously have Debt Conciliation Boards under Debtors' Relief Act, whether the individual money-lenders should be brought into a co-ordinated system that would operate under the control of the Reserve Bank "so that the capital so vitally necessary for the country's agriculture may be available at low rates," or whether all the schemes should be synchronised with a comprehensive scheme of agricultural improvement and development of cottage industries—these are porblems to be examined and finally settled only after the human material in respect of whom these schemes are to operate, has been properly moulded.

Such moulding is possible when these societies are closely associated with some religious ideals or linked with certain aims of social reconstructions. A general characteristic of this movement which deserves attention is that there has been, in its origin, and retained throughout its growth, an idealism which has given to it more than an economic colour. In Germany, Raiffeisen, with the principle of unlimited liability and with the stress on the importance of character as the basis of credit, laid the foundation of his famous system of Agricultural Co-operative Credit Banks and Supply Associations. In Holland the movement has been associated with the religious organisation and the Catholic Church specially has given very active support. In Belgium the Boerenbond, so widespread and strong in its system of co-operative societies has a basis of religious and social culture. In Denmark, the success of the movement is entirely due to a strong moral and educational revival and a patriotic feeling for the reclamation and development of the Danish land. The case of Denmark is specially interesting to us for her conditions before the Danish reconstruction were almost analogous to those present in our country. The early years of the 19th century in Denmark were a time of national humiliation and spiritual stagnation for the country. It was at this time that Bishop Grundtvig came with his Folk Schools. These schools were to give no vocational instructions, to prepare for no examinations; they were to deepen the moral and spiritual life of the students and to open to them the treasures of national history

and traditions of poetry and thought, and to show them history as the slow fufilment of a Divine purpose. The people were to depend on the living force of the teachers' words rather than on book learning.[16] And much of the success of the Danish agricultural co-operation is attributed to this high educational standard of her farming community who receive their training in People's High Schools.

Compared to these what have we done in India that we can claim success for our co-operative movement? The movement is in operation for about four decades and during this long period, it cannot claim to have relieved the agriculturist of the burden of indebtedness. It has not led to 'better farming, better business, better living,' nor has thrift been encouraged and the knowledge of a better handling of money and of elementary banking principles penetrated into our villages and illuminated the structure of our rural economy. Even quantitatively it has, nowhere in India, touched more than 8 to 10% of the masses of her population. On the contrary, cheap, facile and uncontrolled credit has accentuated rural indebtedness and the privileged position of co-operation has deprived the agriculturist of the benefit of some of the concessions included in the recent debt relief legislation.[17] Doubts have been expressed by many if co-operation is even now the best and last hope of the agriculturist in India and a resolution was moved by an ex-Minister in charge of Co-operation in legislature that the co-operative department be wound up and the movement be liquidated.[18] The only positive gain, these people maintain, that has been claimed for co-operation, is a general reduction in the rates of interest charged by the money-lenders due to the existence of co-operative societies but this has lost much of its force now in view of the reduction in the rates of interest prescribed by legislative measures such as the Money-Lenders' Act.[19]

[16] Cf. *Folk Schools of Denmark*, by Dr. Peter Manniche.

[17] Vide *Gole Committee Report*, p. 28.

[18] *Ibid.*, Chapter 5.

[19] *Ibid.*, p. 28.

It is obvious, therefore, that neither the sponsors nor the Government of our country have been able to stimulate the virtues of thrift and self-help among the members of the primary societies. It is interesting to quote here, *in extenso*, the Hubback Committee Report.[20] It states that "the great bulk of these (primary societies) still depend far too much on the active assistance of the staff of the central banks, even to the extent of using that staff for the record of their accounts and proceedings. It is disheartening to find that in some areas in Orissa where literacy is relatively common, half the societies cannot keep their own books, a proportion which is greatly exceeded in more backward areas. It is a general complaint of central banks that they cannot get back their loans without constant pressure from their own staff, nor are they willing to pass the requisitions of primary societies for fresh loans, except after laborious and often lengthy scrutiny by that staff and the directorate of the bank. Very few banks have as yet dared, even with their best societies, to give a trial to the system of 'normal credit' which presupposes ability in the primary societies to assess the short-term credit requirements of its members and to distribute loans fairly among them.

"Further indications of the failure to establish truly co-operative primary societies are to be found in the tendency among members to drop out of the movement, when they no longer require credit, and the tendencies of old societies to lapse into stagnation."

All these prove that the co-operative movement in India had been exotic and did not fit in with the conditions of our rural people and to thrust it on them is to put the cart before the horse. If we are really serious to make use of this contrivance for economic regeneration of our teeming millions, we must find out thousands of Bishop Grundtvig from amongst us and scatter them all over the country so that they can prepare the soil for the sowing of co-operation seeds and then only can this fructify successfully and in plenty and the reclamation of our villages made possible. Nothing else will ever remove the present dormant state of

[20] P. 21.

the movement and inspire that faith amongst our countrymen which makes the British co-operators declare "Nazi planes may destroy our buildings, our factories; they may kill our members and employees, but they cannot break the spirit of co-operation where it has the will to survive and the courage to resist aggression."[21]

SUMMARY

[In this paper, an attempt has been made to show that the co-operative movement is a failure in our country because the preliminary requisite of its successful fruition is lacking; namely, the want of that teaching amongst the villagers who should be inspired with an idealism which has given to co-operation more than an economic impulse. And the various schemes of rehabilitation, involving sometimes several lakhs of rupees of the tax-payers, will ultimately prove useless unless they are preceded by a comprehensive programme of education, on the lines of Folk Schools in Denmark, throughout our country, to inspire the various beliefs which are the sources of activities for the successful working of the co-operative ideal.]

[21] Cf. *Co-operative Review*, Manchester, May, 1941, p. 132.

THE CO-OPERATIVE MOVEMENT IN SIND

BY

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The Co-operative movement in Sind has reached the dead level. It has not taken root and it never will. It is not at all suited to the economic and social conditions of this province, where *feudal barbarism* prevails. No other province has such a *bankrupt, illiterate and demoralised* peasantry, as we have in Sind. So far as the class of zamindars is concerned, (and Sind is a zamindari province) the less said about it the better. The Co-operative movement, suited to the genius of a thrifty, hard-working peasantry and an enlightened class of landlords, never had the chance of survival on *a soil so desert as ours*. It is not "Co-operative" in any sense, nor is it a "movement." It has neither the spontaneity nor the popularity of a movement. It is entirely an official creation without any life or vigour in it. The people join these co-operative societies, because it means getting "cheap" money, which has the unique quality of being "*payable when able.*" A large part of the original money invested has not yet been recovered. If an over-enthusiasitic registrar tries to expedite recovery, members withdraw from the co-operative movement, leaving it high and dry. The zamindars avoid paying their dues, specially after Provincial Autonomy, when they have the upper hand in high quarters.

But this is not all. The officials of the Co-operative department know nothing of co-operation. There is no "Co-operation" in their temper, habits and methods. The "top" officials have anything but a "co-operative" attitude to the mass of the people; the intermediate ones are bound up in red-tape; and the men at the bottom are bullies. Apart from the personnel, the official policy of the co-operative department in Sind is indeed a unique one: "Encourage

the bad societies and discourage the really good ones." Fresh finance is sanctioned in proved cases of continuous, contumacious default; and the good societies are "nagged" with orders and instructions and penalties (including forced subscriptions). Where recovery of dues is cent per cent as in the case of urban housing societies, the Government will not sanction more credit and the municipality will not give more land. But where recovery is insignificant, fresh loans are sanctioned on the plea that old loans can never be recovered otherwise, as if fresh loans are a suction pump which would draw up the old ones from the sink into which they have gone. It is throwing good money after bad.

The people now realise the economic unsoundness of the co-operative movement. In the beginning, they were bamboozled, by high pronouncements from high quarters, into subscribing money. The depression de-bamboozled them. Upto 1935 (when Sind was separated from the Bombay Presidency) money invested in 1926 had not yet been recovered. Then came an over-enthusiastic registrar on the scene, who devoted himself to the "*rejuvenation side of the movement*." He proposed to "rejuvenate" "societies in liquidation," by which he meant, not the societies in actual liquidation, but all the societies. In his opinion, all societies were "societies in liquidation."[1] In this process of rejuvenation, there was to be no regard for any banking principles. "The only solution seems to lie in re-financing members and societies on a liberal scale."[2] In this, he included "C" class societies.[3] And this was to be the policy, when only four lacs had been recovered out of 55 lacs due for recovery. No Horatio Bottomley could have improved upon these banking principles! The result has been continuous deterioration in the co-operative movement. The Sind Provincial Co-operative Bank, the only apex bank in the province, passed through a series of crises. Its assets, invested in the agricultural co-operative move-

[1] *Report of the working of Co-operative Societies in Sind.* 1935-36, p. 58.

[2] *Ibid.*, p. 57.

[3] *Ibid.*, p. 58.

ment, are nearly all frozen. As regards recovery, according to the Government Resolution, "only about one-third of the amount due for collection was actually recovered and *the overdues exceeded a crore of rupees at the end year.*"[4] (1939-40) And this year is described by the registrar as "on the whole . . . . "fair" with regard to water-supply, yield of crop, prices and general condition of the agriculturists."[5] If this can happen in a fairly good year, the position of the co-operative movement should be taken as extremely bad; and if we take into account the fact that *recoveries are made out of fresh finance, the case for winding up the co-operative movement becomes perfect.*

The case against the co-operative movement can be proved to the hilt, if we review in detail this "rejuvenation" movement during the period, 1935-40, commencing with the separation of Sind up-to-date. The number of good (A class) societies remained practically the same—about 1%. The number of fairly good (B class) societies fell from 65 to 34%. The number of "fairly" bad (C class) societies increased from 18 to 31%. The number of very bad (D class) societies increased from 4·5 to 20%. The irony of it is, that in 1936, the Registrar said: " . . . . *if progress is maintained at the present rate* there is every likelihood of Sind comparing very favourably with any of the best provinces in the matter of co-operative development."[6] (Italics mine)

The "Rejuvenation" Movement had its interesting side-shows—"Human Brotherhood Societies" and "Co-operators Clubs," in which there was also "A Ladies Co-operative Club," the establishment of which proved that "*the hitherto misconceived notion of confining the co-operative field solely to the male sex has begun to disappear.*"[7] The meeting together of a number of bourgeois ladies (and/or

[4] Resolution No. P.-30-D/(41). 10th June. 1941. Italics mine.

[5] *Annual Administrative Report of the Co-operative Societies in Sind.* 1939-40, p. 5.

[6] *Annual Report of the working of the Co-operative Societies in Sind.* 1935-36, p. 7.

[7] *Ibid.*, p. 53. Italics mine.

gentlemen) to eat and drink and gossip and talk scandal and thereby further the cause of the co-operative movement, must be a sight for the gods to see!

Leaving aside these "frills," what is the actual "content" of the co-operative movement in Sind? We have one central or apex bank (The Sind Provincial Co-operative Bank) with a working capital of 85 lacs and a reserve of a little less than 2 lacs. We have about 1000 agricultural societies with a total membership of about 30,000, working capital a little more than 80 lacs and a reserve fund of 8 1/2 lacs. We have also about 340 non-agricultural societies with a working capital of more than a crore of rupees and a reserve of nearly 6 lacs. The central bank is "co-operative" in the sense that it lends to co-operative societies; but its capital is not obtained by any "co-operative" method. The part of working capital, shown as "owned" capital, particularly of agricultural societies, is really borrowed capital. Hence the entire working capital may be taken as borrowed. Of late, the membership, the working capital and the reserves have shown a tendency to decline. The official attitude to this decline is truly philosophical: ". . . . *in that very fall lies the real strength and solidity of the movement.*"[8] But "the real strength and solidity of the movement" is proved by the figures of recovery. Out of a sum of little less than 54 lacs, the apex bank was able to recover only 7 3/4 lacs; the agricultural credit societies only $7\frac{1}{2}$ lacs out of nearly 60 lacs; the urban credit societies $37\frac{1}{2}$ lacs out of nearly 56 lacs; and all societies taken together were able to recover only about 58 lacs out of 180 lacs due for recovery! But the district figures are much more interesting. In Tharparkar District, less than a thousand was recovered out of more than 162 thousand; in Hyderabad only 4 out of 251 thousand; in Upper Sind Frontier, nothing out of 8 thousand! The Government issued a press communique[9] in order to remove "the erroneous impression of some people that they could repudiate with impunity their outstanding

[8] *Annual Administrative Report*, 1939-40, p. 8. Italics mine.
[9] 15th May, 1940.

debts to co-operative societies. "But the Government itself, after the introduction of Provincial Autonomy, has to a very large extent, been responsible for this "erroneous impression." In fact, if the present political balance of power in Sind continues to be what it is, the assets of co-operative societies and banks should be taken as "*dead frozen*." One wonders, why in spite of ridiculously small recovery, "fresh finance was encouraged."[10]

Apart from the finances, the membership of the co-operative movement is not very encouraging. We have a population of about 4 million out of which the agriculturists are about 3 million. The Agricultural Cooperative Movement has less than 30,000 members. It means that it has touched hardly 1% of the agricultural population;—and this "1%" is from the landed peasantry and the big landlords, who are a class by themselves.

For the big landlords, there are special co-operative banks. These zamindari co-operative banks are unsound banking institutions. But we are told that "Loans due by members of zamindari banks could be said to be secure cent per cent, as they have been given to *very solvent parties*[11] and against first mortgage of property worth at least three times the value of the loan."[12] But these "*very solvent parties*"[11] paid, in 1939-40, less than 4 lacs out of 14 1/2 lacs due against them! When cornered, they seek the protection of the Sind Incumbered Estates Act or take shelter under the mightier protection of their patrons at the head of the new autonomous government! The Government acknowledges that "frozen loans in the zamindari banks are very large and unless the Directors of the Banks adopt . . . . measures, progress in recovery of the frozen dues would be slow."[13] *But the zamindars are the Directors and the debtors, as also the ministers of state, their allies and hangers-on!*

[10] *Annual Administrative Report of the Co-operative Societies in Sind*, 1939-40, p. 13.

[11] Italics mine.

[12] *Report*, 1939-40, p. 17.

[13] *Ibid.*, p. 19.

The urban co-operative banks have, of late, received a terrible setback. They are not truly "co-operative" banks. They are just like other commercial banks in all respects. There is no reason, why they should have the benefits that only truly co-operative banks should enjoy. But they have been described by the Registrar as "really co-operative in character and spirit."[14]

As regards, non-agricultural credit and consumers' co-operation, we have only 12 societies of the former and 10 of the latter. They are in a very elementary stage.

The following defects are common in the rural credit societies: (1) Denying liability on the ground (a) that money was taken by someone else *e.g.*, Honorary organiser, Chairman or Secretary;[15] (b) that signatures or thumb-impressions on Loan Bonds, etc., are forged or denying all knowledge about the loan.[16] (2) Destroying or concealing or altering records of the society, specially the Loan Bonds.[17] (3) Giving loans to (a) non-members, who cannot be proceeded against under the Co-operative Societies Act; (b) persons who have not paid any share-money, (c) zamindars under the protection of the Encumbered Estates Act, (d) minors, lunatics, etc., who are legally incompetent to contract. (4) Giving in mortgage land or property which does not

[14] *Report*, 1935-36, p. 39.

[15] Such cases are very common. In this respect, it is very interesting to read the remarks of the Registrar (*Report*, 35-36): " It is the policy of this department not to unnecessarily harass the illiterate office-bearers of societies who may *at times keep away money through inadvertance*." Italics mine.

[16] I know of a very interesting case, in which a zamindar asked his hari (cultivator) to put his thumb-impression on an application, which was actually for a loan from a co-operative society, but he was told that it was a formal application to the Local Board for repairing a near-by road. Such cases are common.

[17] This is very easy, as the rural co-operative society has *neither office nor establishment*; and secretary is too beggarly paid to stand temptation. He was formerly paid only Rs. 3 to 5 per month; now he is paid about Rs. 20, but he has to manage 5 societies. I personally know of a case, in which the Secretary and all his family members could find out the records, I wanted, after a rather vigorous search in a one-room house. They were ultimately found at the bottom of a basket containing provisions!

belong to the borrower or is already mortgaged or which cannot be traced; (5) Putting either smudges of ink or toe-impressions as thumb-impressions. (6) Giving loans to a number of persons on mutual suretyship, arranged by permutation and combination.

These and many other malpractices have made the co-operative movement in Sind, an entirely diseased structure. I may cite just one very interesting case, which proves, how incurable the disease is. Last year, two special recovery officers were appointed to recover the apex bank's outstandings against liquidated societies, amounting to 8 lacs and a few thousands. *The officials recovered the thousands, but could not recover the lacs; and the cost of recovery exceeded the amount recovered!* How admirable is the "economics" of the co-operative movement! But we are told that "ethics," not "economics," is its guiding principle! It is only the "perverse" among the economists, who insist that *sound economics is the only sound basis of a sound ethics.* The co-operative movement, meant for the *moral and economic rejuvenation* of the peasantry, is today *neither moral nor economic.* When money cannot be recovered for years on end, it cannot be called "economic," and when all that is recovered is by official terrorism, including the instrumentality of the police, the movement cannot be described as "moral."

I have, therefore, suggested that the co-operative movement should be wound up; and the money recovered as far as possible by all legal means. The rural societies are usually unlimited liability societies. The total valuation of members' assets (based on book-entries, which may be taken for what they are worth) is 280 lacs as against 42 lacs advanced to them. Even if unlimited liability cannot be enforced, still the value of land mortgaged (85 lacs) is nearly double the total sum advanced. The difficulty in the recovery of the amount is not legal, but political. We in Sind are having *a democracy with a vengeance;* and so long as we have *a government by ignorant and selfish zamindars,* there is no hope for the economic salvation of the province.

The Government is spending more than a lac of rupees on the co-operative movement; and the whole money is going

into the sink. The sooner, the co-operative movement is wound up, the better for all concerned. But the co-operative department, its hangers-on and proteges are a vested interest, which it will take time and courage to liquidate.

In fact, the co-operative movement should never have been started. It is suited to the surplus economy and the habits of German and Danish peasants. It was never suited to Indian economic conditions, particularly the economic conditions in this province. If a group of hundred people have each a rupee, they can pool their rupees to make up a sum of hundred; and borrow, on this strength, say, 10 times, *i.e.*, a thousand. This, they can pay away, little by little, out of their surpluses. If each one saves a rupee per month, they can pay away the entire principal and interest in a year's time. But if in a group, every one has a ZERO, the whole group has a ZERO and its credit is ZERO. The difference between the two groups is striking. In one group, the total credit is one thousand times the individual's small possession; in the other, it is nil, for *a thousand* ZEROES *will by no arithmetic nor by any economics make up a sum to look at*![18] The official authors of the co-operative movement in India had probably their own arithmetic and economics! The consequence is simple, or, we might say, simply disastrous. If credit-unworthy persons borrow, they can never repay, so that the *whole affair has got to be finally wound up. This must happen to the co-operative movement*, as it was started on obviously unrealistic assumptions.

If the co-operative movement is to be scrapped up, what is to take its place? The moneylender, in the Sind countryside, is not prepared to lend due to violent changes in the social relationships between debtors and creditors. The balance of political power has turned against him. He feels that the risk is greater than the reward. The social, legal and political changes, after the Separation of Sind and Provincial Autonomy, have led to the utter collapse of the credit system. But it may be recalled with profit that not

18 "We cannot, by co-operation, make bankrupt people solvent, just as idiots cannot, by sitting in a body, become suddenly wise." From the author's article, "A Socio-economic Survey, etc." pp. 331-32, *Indian Journal of Economics*, January, 1941.

long before the double constitutional change that this province underwent, the debtor-creditor relationship was characterised by a marked cordiality in social behaviour and economic transactions. The moneylender in this province has not exploited the debtor. On any realistic analysis, any economist with trained common sense would come to the conclusion that over a long period the general body of debtors has exploited the general body of creditors. The moneylender in Sind is not and never was a capitalist. His economic resources have been built up by extraordinary personal economies and intensely hard-working life. He has financed the debtors by a very cruel reduction in his standard of living and that of his women and children. And now has occurred the complete cancellation of all his capital (book) values, partly by judicial decisions, partly by legislation, but mostly by the violent attitude of the debtors towards the creditors. And now we want him to come back! Indeed all experts, including Mr. Darling[10] of the Punjab, are of the opinion that he is indispensable in any new well-organised rural credit system. Many new systems have been proposed. But the best of them is Mr. Manu Subedar's scheme of "LAND MORTGAGE BANKS through GUARANTORS," which we find in his Minority Report of the Central Banking Inquiry Committee. Money is to be raised on the credit of the state in order to obtain it at cheap rates. The moneylender's resources are limited. The scheme admits of the utilisation of these resources; but it taps the central money market for large supplies at cheap rates. The money will be lent out through land mortgage banks to land-owners against the mortgage of land, but the loans will be guaranteed by the "moneylender," who now appears as "guarantor". He will keep a deposit with the bank against the loans guaranteed by him. He will earn interest on his deposit plus a commission on the loans guaranteed by him. Since the moneylender possesses an intimate knowledge of the parties and since he stands to lose, if the party is un-

[10] "Actually it is a great advantage to a society of peasants to have the Hindu trader's wit, money and experience at its service . . . " M. L. Darling, *Wisdom and Waste in the Punjab Village*, p. 102.

sound, the system ensures that cheap credit reaches really credit-worthy persons. What we want is a sound banking system; and Mr. Manu Subedar's scheme appears to be the soundest. The co-operative movement has failed, because it is not a sound banking system. The moneylender has no resources for long-term finance. In Sind, particularly, his resources are very limited. And he is not prepared to lend them even for short periods. But without his cooperation, no scheme has a dog's chance. No scheme will succeed, which does not utilise the local knowledge that he alone possesses. The beauty of Mr. Subedar's scheme is that it provides the most suitable position for the moneylender and at the same time provides no scope for the vices of the old moneylending system. We must, therefore, work up Mr. Subedar's scheme according to local conditions, now that the co-operative movement has failed, leaving us, I suppose, wiser in the conviction that *mere good intentions and official support are no substitute for sound economics.*

SUMMARY

The co-operative movement in Sind is a failure due to feudal barbarism and a bankrupt, illiterate and demoralised peasantry. The co-operative department is inefficient, corrupt and unsympathetic. Its policy is unsound.

The movement collapsed during the depression, but an over-enthusiastic Registrar tried to rejuvenate the movement by fresh finance. The movement, instead of improving, deteriorated. But even at its best, it hardly covered 1 per cent. of the rural population. Apart from this, the co-operative movement in Sind is a diseased structure and the disease is incurable. It should, therefore, be wound up and another system worked. The best scheme is Mr. Subedar's "land mortgage banks through guarantors." It ensures large finance at cheap rates; and by utilising the moneylender's (*i.e.*, guarantor's) local knowledge, reduces the risk to the minimum and ensures that cheap credit reaches really creditworthy persons. It is the soundest banking proposition.

CO-OPERATIVE RURAL CREDIT IN MYSORE

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The significance of the problem of rural credit was realised in Mysore much earlier than in other parts of India. Long before the passing of the co-operative act of 1904 in India, attempts were made in Mysore to provide the agriculturists with a means of securing finance for their operations. In 1895 a scheme of agricultural banks was introduced in Mysore by Sir K. Sheshadiri Iyer. The object of the scheme was to organise the landholders on co-operative lines in order to enable them to obtain finance on the basis of their united credit.

This initial attempt in Mysore was however not destined to be successful. Though a number of such banks were started by the efforts of the Government they were not functioning as expected, and failed to inculcate a co-operative spirit among the rural population. By the year 1899 there were 64 agricultural banks in Mysore. But subsequent to that year neither any new banks were started nor fresh capital granted to the existing ones, as it was soon realised that they were not developing on sound lines and were incapable of achieving the desired ideal. Table 1 given below shows the number of banks registered and their financial position. However the existing banks continued to operate, though in an unsatisfactory condition, for about a decade more and all of them were wound up by the end of 1915. The reasons for their failure were external as well as internal. The time when these banks were launched was not quite opportune as the closing years of the nineteenth century was a period of bad harvests and famines culminating in the general distress due to plague. Besides there were also certain inherent defects such as the readiness of the Government in offering large loans at low rates of

interest instead of making the people realise their own responsibility for mobilising their capital resources by their personal efforts. Obviously the farmers misconstrued the situation and considered these banks as institutions for lending money at cheap rates of interest, without understanding the part that they had to play for their ultimate success. Naturally such dependence on Government weakened the motive for self-help, thrift and co-operation.

TABLE I

Shows the number of agricultural banks registered and their financial position.

Year	Number of banks started	Amount sanctioned	Amount Withdrawn
		Rs.	Rs.
1894-95	2	49,000	23,500
1895-96	6	97,000	18,500
1896-97	18	9,03,000	7,00,099
1897-98	36	4,18,500	4,57,091
1898-99	2	47,000	1,44,860
	64	15,14,500	13,44,050

Primary Rural Credit Societies.

In the meanwhile the Government of India passed in 1904 the Indian Co-operative Credit Societies Act for the formation of credit societies. Since the scheme of agricultural banks in Mysore had proved futile by this time the Government of Mysore proceeded on the lines of the British Indian Act and passed in 1905 the Mysore Co-operative Societies Regulation. The Mysore Act was even more comprehensive than the British Indian Act as it provided for the formation of non-credit societies also. The Mysore Act was subsequently replaced in 1918 by another act in the light of the experience gained and to ensure the sound progress of the movement in future. The co-operative legislation in Mysore underwent further changes and amend-

ments in the years 1929, 1933 and 1935 in order to provide for the organization of land mortgage banks and for their efficient operation.

Among the agricultural societies in Mysore the credit institutions were the first to be started and they have recorded a steady progress since their inception. By the year 1933-34 they formed nearly 78% of the co-operative organizations of all kinds. In the year 1939-40 there were 1,311 rural credit societies with a membership of 58,344 out of a total of 1,895 societies. Table II given below indicates the growth in the number of societies and their financial transactions.

TABLE II

Statement showing the position of agricultural credit societies, 1931—1940.

Year	No. of Societies	Membership	Paid-up share capital Rs. (lakhs)	Reserve Fund Rs. (lakhs)	Working Capital Rs. (lakhs)	Loans Made Rs. (lakhs)
1931-32	1,623	68,073	13·1	8·9	52·0	11·1
1932-33	1,605	67,724	12·9	9·8	53·3	10·5
1933-34	1,534	68,945	12·2	10·9	53·3	9·8
1934-35	1,456	63,701	11·5	11·6	55·4	8·6
1935-36	1,370	61,767	11·1	12·1	53·4	7·3
1936-37	1,337	58,892	11·1	12·1	54·0	8·0
1937-38	1,365	60,313	11·6	12·4	57·6	9·9
1938-39	1,327	57,563	10·7	12·5	50·2	8·0
1939-40	1,311	58,344	10·3	12·9	50·0	7·2

The rural credit societies of Mysore have followed in general the Raiffeisen principles of agricultural co-operation. But there are certain minor variations of the accepted principles which are characteristic of the societies in Mysore. As observed by the Samaldas Committee the golden rule of one society for one village has not been strictly followed in

Mysoer.[1] Though this may not be feasible in actual practice still it ought to be the guiding principle particularly with regard to the rural credit societies. In view of the unlimited liability of the rural credit societies it is necessary to narrow the sphere of their operations in order to ensure efficient and safe functioning. The Chandrasekhara Aiyar's Committee has also endorsed the same opinion and has laid down the principle that even where a society cannot be confined to one village, its operations should not extend beyond a radius of three miles in the maidan and five miles in the malnad.[2]

The average membership per agricultural society in Mysore is about 45 and the Samaldas Committee opined that it should not exceed 60 in any event considering the nature of the work undertaken by the Mysore societies. The Co-operative Committee of 1936 is however of opinion that a good rural society can successfully manage about 100 members.[3] In this respect it is necessary to emphasise the fact that the optimum number for each society depends upon the type of members available in each village for the efficient management of the society and the nature of the work undertaken by it. If as in Mysore the liquidation of the prior indebtedness of the members is taken up, the membership should necessarily be more restricted. Hence the absolute figure of 100 that is suggested could only serve as the safe maximum limit up to which membership may be increased.

Another important feature in Mysore is that shares form a high proportion of the working capital of most of the primary agricultural societies. Generally among unlimited agricultural credit societies members do not take more than one share and do not expect any dividend on it. Though in Mysore there is no anxiety to earn dividend, as the rate of dividend is limited, still share capital has loomed large. But in this respect the trend of development during succeeding years is encouraging. Whereas the percentage

[1] Samaldas. *Mysore Co-operative Committee*, 1923, para 30.

[2] Chandrasekhara Aiyar, *Committee on Co-operative in Mysore*. 1936, p. 26.

[3] *Ibid.*, p. 26.

of working capital derived from shares was 47·5% in 1915-16 it fell to 22·9% in 1933-34. There has been a further decline in subsequent years and it stood at 18·8% in 1939-40.[1] This is in conformity with the Raiffeisen principle which insists not on share capital but on the joint and several responsibility of its members. Table III given below shows the composition of the working capital of the agricultural societies in Mysore in the year 1939-40.

TABLE III

No.		Amount	Percentage of working capital
1.	Share capital	11,86,897	18·8
2.	Deposits	6,29,177	9·8
3.	Reserve Fund	13,16,799	20·8
4.	Loans from Central Banks	28,17,926	44·6
5.	Loans from Govt.	63,360	1·0
6.	Miscellaneous	3,02,082	4·9
	Total	63,16,213	100·0

One of the disquieting features of the composition of the working capital is the small proportion that deposits bear to the aggregate. Though there has been a slight improvement in it still the rate of growth is not appreciable. It increased from 7·1% in 1915-16 to 9·9% in 1933-34, and in 1939-40 it was only 9·8%. The paucity of deposits is due to some extent to the system of shares. More effective endeavours ought to be made to attract larger deposits.

Perhaps the only item that has steadily increased is the reserve fund which is due to the statutory obligation to set aside 24% of the net profits to reserve fund. Further there has been a certain amount of disinclination to go to the Central Financing Institutions for loans and a sense of self-reliance was developed by depending upon local capital though inadequate for efficient operation. This was largely

[1] *Report of the Co-operative Societies in Mysore*, 1939-40, p. 5.

due to the redemption of prior debts undertaken by the societies instead of merely making provision for the current needs of agriculture. It ought to have been realised by the societies that it is a work which is more appropriate for a special financing agency which can provide long term credit. The credit societies should on the other hand confine their operations to meeting the current needs of agriculture and depend upon the central financing agencies to a greater extent. At present this is more feasible due to the establishment of the Land Mortgage Bank in Mysore.

Most of the rural credit societies in Mysore have adopted the unlimited liability principle. In 1939-40 there were only 75 societies with limited liability out of a total of 1,311 credit societies. It is contended by some that the full implications of unlimited liability are not realised by the agricultural population and as such it is more profitable to adopt the limited liability principle for the rural credit societies.[5] This suggestion is not feasible because the entire structure of such societies, the essential features of which are restriction of area and limitation of membership, are based on the unlimited liability principle. Besides it may be safely assumed that the rural population in Mysore have a fair knowledge of the implications of unlimited liability. Moreover unlimited liability becomes of decreasing importance as the societies accumulate their own funds, reserves, etc.[6]

Finally the utility and feasibility of starting multipurpose societies in Mysore may be considered. With regard to this question opinion of the cooperators is divided. Some feel that there is not enough capacity among the villagers even to manage a simple credit society and as such a multipurpose society cannot be easily handled by them. Others feel that the limited success of the co-operative movement in India is due to the neglect of the various aspects of village life and the overemphasis on credit. It

[5] Note of dissent: Samaldas. *Mysore Committee on Co-operation*, 1923.

[6] Chandrasekhara Aiyar, *Committee on Co-operation in Mysore*, 1936, p. 30.

is no doubt obvious that a multi-purpose society requires greater capacity to manage but the general absence of such talent need not deter the authorities from starting those societies wherever feasible.[7] In all those villages where capable cooperators are available multi-purpose societies may be started with great advantage.

Central Financing Institutions.

The co-operative edifice should be in the form of a pyramid with a large number of primary societies as its base and the Central financing institutions as its apex. A perfect process of co-ordination is necessary among these units for a coherent functioning of the co-operative organism. The Central institutions should act as financing agencies and balancing centres of the primary societies. Though in theory these parts ought to start more or less simultaneously yet in Mysore they commenced at different times according to exigencies of circumstances and did not always function according to their legitimate objectives. The need for Central financing institutions was felt in Mysore only when the rural credit societies came into existence which was about three years after the commencement of the movement. At the commencement of the movement in 1905 only urban credit societies were started and they were able to finance themselves. The first central institution was the Bangalore Central Co-operative Bank which was organized in 1908. It commenced operations with the chief aim of financing primary societies but deviated later on from its essential principles and proved ineffective as a central financing agency. A few Federal Banking Unions and District Central Banks were also started to act as liaison institutions between the primary societies and central financing agencies but on account of various reasons they failed to serve any useful purpose. In 1928 the Samaldas Committee recommended that in a compact state like Mysore the intervention of these intermediary institutions between the primary

[7] *Presidential Speech*: Mysore Provincial Co-operative Conference, 1940.

societies and central financing agency is unnecessary.[8] This suggestion was accepted by the Government and they are being gradually wound up. The last central financing agency to be started in Mysore was the Mysore Provincial Co-operative Bank which was organized in 1914. From the outset this institution operated as a true central agency and was ultimately converted into the cooperative Apex Bank.

In 1923 when the Samaldas Committee investigated the position of the cooperative movement in Mysore the two important central financing agencies were the Bangalore Central Cooperative Bank and the Mysore Provincial Bank. From the outset the former suffered from certain important defects in its constitution rendering it unworthy of the unique place it occupied as a central financing agency. Sufficient emphasis was not laid on the importance of the affiliation of primary societies or on their taking a prominent part in its management. The proportion of individual members was very much higher than that of societies and the loan transactions were mostly with the individuals. Though the Bank was able to attract good dividends and was flourishing, still it failed to achieve its objective either as a central financing agency or as a balancing factor. The Mysore Provincial Cooperative Bank was on the other hand brought into existence with a constitution of the approved type. Due prominence was given to the fact that it existed for the benefit of primary societies. Though it had some individuals as members still the proportion of affiliated societies was much higher. Thus it had all the features of a true central agency though it had to share that onerous responsibility with the Bangalore Central Cooperative Bank which was least suited to undertake it. The Samaldas Committee therefore suggested either the amalgamation of the two institutions or the conversion of the Mysore Provincial Co-operative Bank into an Apex Bank.[9] As an amalgamation was not feasible the Provincial Cooperative Bank was made an Apex Bank and the Central Cooperative Bank was

[8] Samaldas, *Mysore Co-operative Committee*, 1923, para 134.

[9] *Ibid.*, para 158.

converted into a pure urban bank and was relieved of its duties of financing the primary societies.

When the Mysore Cooperative Committee of 1936 investigated the progress of the movement they found that the Apex bank was performing successfully the twin function of a central bank and of an Apex bank. It had not only to finance the primary societies but also to correlate the co-operative movement with the general money market. By this time the unions and central banks had ceased to have any useful existence and their revival was also considered inadvisable. The committee also felt it necessary that there should be a compulsory affiliation of all primary societies with the Apex bank and that they should be made to invest all their surplus funds and a large part of their unutilized reserves with it. The Apex bank in turn should be in readiness to extend all financial help to them whenever necessary. Further the committee was of opinion that the Bank of Mysore which is the premier bank in the state should give adequate accommodation to the Apex bank in the shape of a cash credit so that an effective coordination of the co-operative movement with the money market would be feasible.

The Apex bank has been progressing in the right direction with regard to its constitutional position and transactions as revealed by the departmental report for the year 1939-40. Its membership consists of 1,063 societies and only 189 individuals. In other words societies formed nearly 85% of the total membership while individuals formed only 15%. There are 936 agricultural credit societies affiliated to it out of a total of 1,311, showing thereby that nearly 71 per cent of them are affiliated to the Apex bank. During the year 1939-40 loans to the extent of Rs. 2,12,664 were made to societies and only Rs. 45,519 were made to individuals. That means nearly 86·6% of its loan transactions are with the societies.

Long Term Finance.

Agriculture stands in need of two types of finance, namely, Short-term and Intermediate, and Long-term finance. The distinction between them arises from the purpose for

which they are utilized and consequently the period of their duration also varies. Short-term and Intermediate credit is generally required for the current needs of agriculture and for effecting temporary improvements on land. The financial accommodation for such needs may be required for periods extending from a couple of years to a maximum limit of ten years.

Long-term finance on the other hand is necessary for permanent improvements on land and consequently they are required for longer periods than ten years. The co-operative credit societies are unable to supply the long-term needs of agriculture as their constitution and structure are not adapted for the purpose. Some of the rural societies in Mysore attempted to redeem the prior debts of the farmers and involved themselves in complications because it was alien to their constitution. The unlimited liability of the rural credit societies precludes them from entering into long period commitments as the efficacy of such a liability wanes with an extension of the period of accommodation.[10] Besides, as the societies usually operate with short-term deposits it would be erroneous to use them for long-term investments. It is no doubt feasible for the Apex bank to utilize its surplus funds occasionally for long-term investments, but what is necessary is to evolve a permanent machinery that can undertake the provision of long-term finance as a regular feature.

It is therefore necessary to organize for the purpose special institutions called Land Mortgage Banks constituted preferably on co-operative lines. The need for such an institution in Mysore was felt some time before 1923 and the Samaldas Committee which reported in that year also emphasised the necessity for organizing it particularly for the benefit of the areca nut growers of the malnad areas in the state.[11] Some of the later enquiries in Mysore also reiterated the same ideas and finally in the year 1929 the Mysore Co-operative Land Mortgage Bank was started on a provincial basis with adequate support from the govern-

[10] Committee on Co-operation in Mysore, 1936, p. 131.

[11] Samaldas. *Mysore Co-operative Committee*, 1923, para 172.

ment. It started with a share capital of 5 lakhs of rupees and was empowered to issue debentures to an extent of 20 lakhs of rupees. The government guaranteed the interest on the debentures and also agreed to contribute 5 lakhs of rupees towards debentures. So far five series of debentures have been issued as follows:—

First	series	at	5	per cent		2,18,500
Second	,,	,,	4½	,,		62,500
Third	,,	,,	4	,,		1,85,100
Fourth	,,	,,	3½	,,		5,00,000
Fifth	,,	,,	3½	,,		1,25,600
					Total	10,91,700

The operation of the Land Mortgage Bank in Mysore reveals certain peculiar features involving them in certain undesirable consequences which are in need of being obviated. Unlike the Landschafts of Germany the Mysore Land Mortgage Bank issues debentures before the actual mortgage of the property with the result that money lies idle with them till investments are available. This system lowers their percentage of profit as the interest on debentures has to be paid while their finance remains inactive. In Germany the debentures are issued to the borrower who markets them through the banks so that the Landschaft does not involve itself in any loss of interest. To obviate this difficulty in Mysore, a cash credit with the government has been arranged to meet the demands for loans till they are reimbursed by the issue of debentures.[12] This appears to be a satisfactory arrangement considering the local circumstances. It may not be possible in Mysore to adopt the principle of issuing the debentures directly to the parties concerned as they are not enlightened enough to effect their sale in the money market.

From the point of view of the low earnings of the Land Mortgage Bank one or two observations may be made. Towards the working expenses of the bank substantial finan-

[12] Bangaraswamy, *Co-operative Movement in Mysore*, p. 206, 1935. (Typescript.)

cial help is being extended by the government and this may have to be continued for some time more as the earning capacity is not yet fully exploited. This is because until the optimum turnover of the bank is reached it is not likely to yield good results. In order to achieve this it is necessary to increase the scope of its transactions by extending the sphere of its activity and lowering its rate of interest. As pointed out by the cooperative committee of 1936 it is necessary to reduce the rate of interest from 8 per cent to 6 per cent so that it would be profitable for the agriculturist to borrow from them.[13] Besides it has also to expedite its transactions by employing an efficient staff.

Finally we may consider the question whether the Land Mortgage Bank would be well advised to undertake the grant of short-term finance also for their clientele. It is pointed out that they should undertake this responsibility also as the credit of their customers is fully mortgaged to them and they are hence unable to raise loans elsewhere. The Land Mortgage Bank is however opposed to this view as the nature of their legitimate transactions is different from short-term finance and besides their share capital is insufficient to meet such demands. They are also not in favour of attracting suitable deposits for the purpose, as that might cut into the potential capital of the cooperative primary societies. The cooperative committee of 1936 however doubts the validity of these objections and recommends the grant of short-term credit also by them.[14] But considering all aspects of the question it makes one sceptical how this would be feasible, because such a process would deprive the primary credit societies of all their legitimate work. In course of time a large majority of the rural population in Mysore is likely to have transactions with the Land Mortgage Bank and if all of them can expect short-term finance also from it the activities of credit societies will be largely curtailed. Besides it does not appear to be a sound argument that because the properties of the farmer are mortgaged to the bank the societies will refuse to accom-

[13] *Committee on Co-operation in Mysore*, 1936, p. 139.

[14] *Ibid.*, p. 137.

modate; as personal credit is the *sine qua non* of the, primary societies and that should continue to be the basis for their accommodation. So it is better if the onerous task of providing short-term credit is left to the primary societies and the Land Mortgage Bank remains unharnessed with this further responsibility.

Conclusion.

In conclusion it might be pointed out that the efforts of the government of Mysore in the direction of affording relief to the agriculturists cannot go without due recognition. The gravity of the situation was recognised long before it was done so in other parts of India and the attempts of the state have throughout been laudable. The scheme as evolved in Mysore may not exactly approximate towards the theoretical ideal because certain adaptations have been necessitated due to local conditions and exigencies of circumstances. No doubt there are a few shortcomings in the cooperative movement in Mysore but they are not beyond rectification. A large measure of education and propaganda among the rural population is necessary for a proper comprehension of the underlying principles of cooperation. The rural credit societies should be made to realise the advantage of depending to a greater extent on the central financing institutions as otherwise an integrated cooperative structure cannot be easily established. With the organization of the Land Mortgage Bank in Mysore the cooperative edifice has attained its symmetry. What remains to be done is to strengthen the interrelations between the different parts in order to achieve greater coherence in the functioning of the mechanism. Time alone can achieve this because the co-operative structure is like an organism which should be allowed to have a healthy growth.

SUMMARY

In Mysore the necessity of providing credit facilities for the agriculturists was realised as early as 1895. A scheme of agricultural banks, based on co-operative principles, was launched, but this initial attempt did not meet with much success due to

certain inherent defects. In the year 1905 the Mysore Co-operative Societies Regulation was passed similar to the Indian Act of the previous year. Since then a large number of rural credit societies have been brought into existence and they are operating with fair success. The rural societies are mostly of the unlimited liability type often comprising more than one village. The proportion of shares to working capital is rather high though it is now on the decline. There seems to be a disinclination among them to approach the central financial institutions for loans frustrating thereby the attempts for integrating the co-operative structure. In future, a few multi-purpose societies may be started wherever the talent is available for managing them.

Among the central financing agencies the Co-operative Apex Bank is the most important institution. The others that were started failed to approximate towards the ideal and were hence relieved of the responsibility. Intermediary institutions like the Federal Unions and District Central Banks that were started did not serve any useful purpose and it was consequently decided not to revive them; as in a compact state like Mysore there was not much necessity for such institutions. For the provision of long-term finance a Land Mortgage Bank was established in 1929 with a large measure of state support. The bank has to endeavour to reach its optimum turnover by extending the scope of its operations and reducing the rate of interest so that a large number of agriculturists may be induced to borrow from it. The system of issuing debentures before actual mortgage of land has reduced the profitability of the concern has been obviated by arranging a cash credit with the government. The suggestion of making it responsible for the provision of short-term credit also does not appear to be quite feasible. The experience of the past 35 years shows that the co-operative movement in Mysore is developing on right lines and what is needed in future is to strengthen the interrelations between the different parts so that an integrated structure may be attained.

SOME ASPECTS OF RURAL CO-OPERATION IN TRAVANCORE

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Introductory.

Co-operation in India may very well be said to have reached the cross-roads. It has failed to fulfil the expectations of its ardent votaries, but it has at the same time established itself as a potent factor in the rural economy of the country. Hope and enthusiasm in the movement have slowly waned before that wave of pessimism which has taken hold of men's minds, and brought them to a realization of the wide gulf which separates the ideal from the actual. Confronted by the very real difficulties of its practical working on the one hand, and the still more baffling problem of an alternative solution on the other,[1] co-operators and governments are today taking stock of the situation, and considering schemes of consolidation, rectification and rehabilitation. The wide variety of conditions obtaining in different parts of India, and the varying degree of success or failure which has attended the movement in these areas, however, clearly indicate that the problem is best tackled on a regional rather than on an all-India basis.

Travancore.

"Travancore is one of the most thickly populated regions in the world."[2]. With an area of 7625 square miles, of which only 4754 are cultivable, she has to support a

[1] *The Report of the Royal Commission on Agriculture*, 1928, for example, says:—"If co-operation fails, there will fail the best hope of rural India."

[2] *Census Report*, 1931.

population of over six millions.[3] The rate of increase too, which is 19% during the last decade, is rather alarming. The density of population is 796 per sq. mile for the whole state, and over 2000 for the low-lands. Like the rest of India, she is predominantly agricultural; and over 54% of the population is supported by land. Consequently, the pressure on land is very great, and the evils of uneconomic holdings, sub-division and fragmentation are rampant. A distinctive feature of the State is the absence of villages of the British-Indian type, except in the extreme south. Isolated homesteads with adjoining fields are found scattered throughout the land. Nearly 90% of the population live in rural areas. But Travancore is par-excellence the land of literacy. 47·6 per cent of the people are literate. It is against this background that we have to view the results of Co-operation in this State.

The Progress of the Co-operative Movement.

The co-operative movement was introduced into the State, at the initiative of the Government, in 1914; a decade after its inception in British India. We may mark two main stages in its progress; one, of rapid expansion from 1915 to 1931, and another, of steady decline to this date. The year 1931 saw the largest number of societies on the rolls, *viz.*, 1818, but the highest membership of 2,30,433 was recorded only two years later. The working capital of the societies reached the peak figure of Rs. 91,97,743, in 1935-36. The reserve fund was on the increase till 1938-39, when it reached the sum of Rs. 10,97,276.

The decline which set in after 1931 led to the adoption of a policy of consolidation and rectification. The Devadhar Committee was also appointed to enquire into the working of the movement, and it submitted its report in 1934. The new Regulation of 1937, passed as a result of their recommendations, established a stricter official control over the movement, and instituted a more expeditious procedure for

[3] The population and literacy figures are according to the 1941 census.

the recovery of dues. It has discouraged the growth of mushroom societies and accelerated the pace of liquidation.

At the end of 1939-40 (1115 M.E.), there were 1480 societies on the rolls, of which 21 had not yet begun work. They include 1 Central Bank, 20 Taluk banks, 1 co-operative institute, and 24 Supervising Unions. The 1459 working societies had a membership of 1,81,377; a share capital of Rs. 29,85,066; a working capital of Rs. 73,71,104, and a reserve fund of Rs. 10,73,574. The audit report of the Registrar reveals the fact that, of the 1393 societies classified, 30 are A class, 102 B class, 768 C class, and 493 D class or rotten societies. Besides these, there are already 483 societies in different stages of liquidation; the cancellations in 1939-40 alone amounting to 195.

Rural Credit.

The preponderance of credit societies is the characteristic feature of the co-operative movement in India; and Travancore is no exception to it. Of the 1459 working societies at the end of 1939-40, 1353 or 93% did credit business. Among these 1091 were agricultural primary societies which supplied rural credit.

This over-emphasis on credit is but natural in a state with a pressing burden of rural indebtedness, which has been estimated by the Travancore Banking Enquiry Committtee, 1930, at about Rs. 25 crores, or Rs. 55 per head[4] of the rural population. Further, the credit facilities available to meet the current needs of the agriculturists are also unsatisfactory. Though there is no hereditary money-lending class, with all the viles and caprices associated with their name, the petty moneylender, who is very often also a dealer in produce, is a dangerous benefactor. The cultivator has to incur a double loss by way of an exorbitant interest rate, as well as the sale of the produce at lower than normal prices. The joint-stock banks, though numerous, are not very helpful to the agriculturists, as they lend only for short periods, and mostly on gold and other solid assets. Government agricultural loans too can meet only an

[4] Calculated on the census returns of 1931.

insignificant proportion of the demand. The *chitty*, an indigenous institution, is a very expensive and precarious method of raising money. The co-operative credit society, therefore, could conveniently fill a void, and was enthusiastically welcomed by the needy peasants.

Agricultural Credit Societies.

These societies are of a 'modified Reiffeisen type,' with unlimited liability, but with considerable share capital, and provision for dividends after one-fourth of the profits are carried on to the reserve fund. Their position in 1939-40 may be gathered from the following table:

Number	Members	Share capital	Deposits from members	Deposits from non-members	Working capital	Reserve Fund
		Rs.	Rs.	Rs.	Rs.	Rs.
1091	1,17,606	15,55,621	1,57,106	11,289	30,66,217	6,89,859.

The main characteristics of these societies are:—high membership and share capital, low deposits and working capital, a high proportion of unproductive loans, and heavy overdues.

The membership per society is 125; while it is only 52 in Madras, and 51 in Bombay.[5] The share capital per member is over Rs. 13; while it is about Rs. 9½ in Madras and Rs. 17 in Bombay. Share capital forms about 51% of the working capital of the societies in Travancore; but it forms only 11% in Madras and 12% in Bombay. The comparatively high share capital is due to the monthly instalment system of payment, by which a share of Rs. 5 is paid in 20 monthly instalments.

The working capital of the Travancore societies compares unfavourably with that of the neighbouring provinces. It is only about Rs. 26 per member; while it is Rs. 85 in Madras and Rs. 145 in Bombay. This is due to the very low level of deposits both from members and non-members. Members' deposits come to only Re. 1. 5 as. per

[5] The comparative estimates are based on the figures for 1939-40 in the case of Travancore and Bombay. and 1938-39 in that of Madras.

head. Non-members' deposits have fallen at a phenomenal rate in recent years; *e.g.*, from Rs. 1,56,897 in 1938-39, to Rs. 11,289 in 1939-40. This certainly shows the prevalent distrust in the societies. The competition of the multitude of joint-stock banks of all sizes and descriptions has seriously affected the volume of deposits flowing into the co-operative movement. These institutions, with their fixed offices, paid managers, business-like methods, imposing counters, and liveried servants, have made a profound impression on the public mind, and infused more confidence than the unassuming primary societies with their honorary Secretaries and peripatetic offices have done.

The volume of loans issued by the agricultural credit societies has considerably diminished in recent years. It was only Rs. 3·94 lakhs in 1939-40 as against Rs. 9·46 lakhs in 1931-32. The bulk of the loans issued in 1939-40, amounting to Rs. 2·06 lakhs, was for the settlement of prior debts, and only Rs. 1·8 lakhs were for productive purposes. About 89% of the loans were on personal security.

The curse of overdues in these societies has become a very accute problem, especially in recent years. The percentage of balance to demand has steadily risen during the last ten years. The figures are:—

1930-31	1931-32	1932-33	1933-34	1934-35	1935-36	1936-37	1937-38	1938-39	1939-40
46·6	56·0	59·7	64·4	69·5	72·0	71·5	72·3	72·6	73·8

The Extent of Co-operative Credit.

Co-operative credit has at no time been able to meet fully the current needs of the rural population; nay, even an appreciable part of it. The Travancore Banking Enquiry Committee, 1930, estimated that co-operative credit supplied about $8\frac{1}{2}$ per cent of the total annual requirements of the rural population.

The estimate of the Committee is questionable on two grounds. Firstly, no authoritative estimate of the current needs of the rural population in this State has ever been made. The Committee's assumption, that the total annual

requirements of the agriculturists can be fixed at Rs. 5 crores, representing a fifth of the total rural indebtedness, is rather arbitrary. Secondly, they have calculated on the basis of the total amount of loans advanced by all the societies, both rural and urban, including the Central Bank. The advances of rural societies alone can be legitimately taken into account in calculating the extent of service done to the agriculturists.

If the committee's estimate of Rs. 5 crores as the annual requirement of the agriculturists, is anywhere near the truth, the total advances of all societies in 1939-40 represents only 1·8%, and the loans issued by the agricultural primary societies represents less than 1% of the total need.

"Kettuthengu" Deposits.

An interesting feature of the working of some rural societies in the State is what is known as "Kettuthengu" deposits. This is a system by which the members of societies hand over a certain number of yielding coconut trees to the society, for a fixed period, for management and collection of proceeds. The member has to look after the property, do the manuring, and is free to make any improvements in the garden; but the collection of the coconuts is done by the society. The societies sell the coconuts wholesale, often by public auction. The number of coconuts per yield, and the proceeds thereof, are entered in a pass book in the possession of each member; and interest is allowed on the amount so credited at the rate of 5% per annum.

This system has great advantages for the small agriculturists. They get slightly higher price for the produce than the current retail price. A more fundamental advantage of the system, however, is that it promotes thrift in people who, left to themselves, would never be able to save anything. The societies have found the system eminently suitable for the easy collection of repayment instalments of loans. In recent years, it has been used mostly for this purpose, and it has enabled many societies to tackle successfully the problem of overdues.

The "Kettuthengu" is becoming increasingly popular.

While there were only 46 societies which had adopted the system in 1932-33, their number had grown to 206 by 1939-40. The total number of coconuts collected in that year was 36·74 lakhs, and their proceeds, even at the low prices current, amounted to Rs. 82,984.

Non-Credit Activities.

The number of agricultural societies which do non-credit work is very limited. 21 of the credit societies do production and sale business as a side activity. There are 8 rural reconstruction societies, one cattle breeding society, 1 bee-keeping society, 1 poultry farming society, and 2 land colonisation societies. Rural reconstruction is receiving increasing attention in recent years, and 5 out of the 20 societies registered in 1939-40 were for that purpose.

The Multipurpose Mania.

The splendid idea of multipurpose societies, which should include within their ambit the entire social and economic life of a village, and strive to realize the Irish ideal of "better living, better farming and better business," has been advocated by the Reserve Bank of India, and endorsed by the Thirteenth Conference of Registrars in December 1939. In pursuance of this resolution, much propaganda has been done in this state for the organization of such societies. In 1940-41 alone, 55 societies have been registered on the new model, and 12 of them are said to have started work. Besides these, 28 old societies have been converted into multipurpose societies.

The existing by-laws of the ordinary credit societies provide, not only for the disbursement of credit, but also for joint purchase and sale, for the dissemination of knowledge of the latest improvements in agriculture, handicrafts, etc., for the provision of implements, machinery, or livestock, and for all other measures generally intended to encourage thrift, self-help, and co-operation among the members. These provisions are comprehensive enough. It is therefore idle to pretend that the failure of the present societies to become an integral part of the rural economy of the country is due to the limited scope offered to them.

When only a few of the many hundreds of societies which have sprung into existence have been able to work beyond the first item in the programme, namely, credit, it is difficult to understand what useful purpose can be served by registering new societies with more ambitious objects.

It has also to be remembered that institutions, however perfect in theory, and beneficial in practice, should suit local conditions, if they should work successfully. The multi-purpose scheme is an ideal organization for a village; but it is highly doubtful whether it is suitable for a State where villages of the British Indian type are very few. The experience of societies which have attempted to expand their activities is also discouraging. The Krishnapuram Lekshmi Vilasom Co-operative Society which was the first to attempt other activities had to be wound up. Many other societies in North Travancore which attempted production and sale of coconut products have suspended them for some reason or other. The only notable exception has been in a village in South Travancore. The Neyyoor Co-operative Credit Society has made a laudable attempt to meet all the needs of its members, and embrace every aspect of their daily life. It owns a building and premises, and carries on multifarious activities; such as spinning, weaving, carpentery, smithery, laundry, poultry farming, bee-keeping, supply of agricultural implements, improvement of livestock, co-operative store, street lighting, sanitary improvements, medical aid, reading room, library, village anchal office, etc. All this was accomplished within the framework of the old by-laws before it was converted into a multipurpose society. Even this society has received a slight setback in its progress during the last year or two, due to factions and heavy overdues in the credit branch.

Causes of Failure.

The general decadence of the movement in the State, and the woeful condition to which the agricultural primary societies and the financing agencies have been reduced, may be ascribed to a variety of causes.

There are certain elements in the growth of the movement which explain the essential unsoundness of most

societies. Though there is nothing inherently wrong in the fact that the movement was not a spontaneous growth but the result of government initiative and effort, the way in which the societies were organized left much to be desired. There was a 'multiplication of co-operators out of all proportion to the growth of co-operation.' It was only late in the day, when numerous societies had fallen into decrepitude, that this unhealthy expansion was checked. The basic principles of co-operation, namely, thrift and self-help, were grossly neglected. The societies came to be regarded as mere agencies for the supply of cheap credit; 'chitty funds' as some still call them. The people failed to enter into the spirit of the movement, and realize the essential function of a society as an organization for making self-help effective through mutual help.

The lending system prevalent here has also contributed, not a little, to make many societies bankrupt. About 90% of the loans have been issued on personal security. According to the by-laws, a member may be given a loan to the maximum limit of five times the value of his shares, and he is allowed to stand surety for ten times the share value. Thus the payment of 8 annas (4as. entrance fee, and 4as. the first instalment of the share) entitles him to become liable for Rs. 75. The Managing Committees have so seldom exercised their discretion that members have come to regard it as their right to become liable to the maximum limit. This state of affairs has also helped many private money-lenders to make good their bad debts, which, in effect, are transferred to the societies. The multiplicity of societies and financing agencies offered facilities to both societies and individuals to borrow far in excess of their repaying capacity. Further the large proportion of loans for unproductive purposes has ultimately led to an increase of indebtedness without improving the economic condition of the borrowers.

Laxity in the realization of overdues has been another potent cause of failure. Defaulting by Committee members themselves, favouritism shown to their relatives and friends, binami transactions, and the incompetence and lethargy of Secretaries have driven many societies to the verge of ruin.

The rule allowing bonus only on realized net profits has robbed all incentive to work from the Secretaries of declining societies, so that the decline becomes cumulative. The delay in civil courts and revenue departments in the past has prompted many members to defy the committees. These circumstances have created an impression that co-operative loans could be defaulted with impunity. The appointment of Sale Officers in recent years has partially rectified matters; but the evil has already been done.

Above all, the economic depression has affected the repaying capacity of the members to a great extent, and it has not yet released its stranglehold. With an area of over 500,000 acres under coconut cultivation, the bulk of the agriculturist class, especially the small holders, depend upon the products of the cocoanut palm for their income. The prices of these products have not hitherto shown any appreciable rise from the worst depression level. A candy (654 lbs.) of copra which sold at Rs. 95 in 1929 fetched only Rs. $42\frac{1}{4}$ in 1939. This partly explains, why the decline of the movement in the State still continues, while in Madras, it has been arrested, and there are signs of fresh expansion since 1937.

The Rôle of the State.

It is rightly accepted on all hands, that the reconstruction of the primary societies is a matter of vital importance. But this cannot be done without affecting the other parts of the edifice. Only a careful and comprehensive scheme of reconstruction could place the movement on a sound footing. The State alone can help it out of the present impasse. As the Reserve Bank of India[6] has suggested:—"The Co-operative department will have to take a leading part in the reconstruction work and the future guidance of the societies. The position should be considered to be almost the same as when the co-operative movement was started and the department must be prepared to shoulder the burden."

[6] Bulletin No. 3.

The Fundamental Issue.

There is, however, one fundamental issue to be considered in any scheme of rehabilitation. This relates to the movement in general. It is now taken almost as axiomatic that the theory of co-operation is perfectly sound, and that it is the only escape from the evils of capitalistic exploitation and the dangers of Socialism or Communism. The defect, it is often said, is in the people who work it; in their 'ignorance and apathy,' in their incompetence and dishonesty, their petty jealousies and bickerings, and their 'factions, favouritism, and nepotism, which have no place in the economy of co-operation.' But one often wonders whether these are not the common failings of humanity. If co-operation cannot thrive in the midst of these shortcomings, has the theory of co-operation taken sufficient account of human weaknesses? The question is, whether the people should be made fit for Co-operation, or Co-operation should be made fit for the people. I should think, it must be both-ways. While no effort should be spared to remove the handicaps of the rural population, and improve their standards of integrity and business morality, Co-operation should also be adapted to suit the tempo of the people whom it purports to serve. The fundamental defect in the theory of Co-operation, to my reading, is that, in striking a *via media* between capitalism and socialism, it has eschewed the capitalistic motive of private profit as well as the impetus of the Stae behind socialism. It, therefore, gets stranded without motive power, and without momentum. Unless schemes of rehabilitation take into account this vital deficiency, their success is bound to be problematical.

In a country, where the average man has hardly enough to subsist, it is too much to depend upon honorary service. No wonder, numerous societies in all parts of India have failed, due to the inefficiency or indifference, not to speak of the dishonesty of those responsible for their conduct. Even when a society Secretary is actuated by the best of intentions, and ready to render service to his fellowmen, he can ungrudgingly give his time and labour to this service, only if he is in a position to keep the wolf off the door. No

system which is based on selfless service can thrive in a poor country brought up in the traditions of capitalism. The partial success of the movement in several parts of India, like the Punjab, is in no small measure due to the munificent aid from Government, and the unremitting labours of able and well-intentioned civilians, who could fall back upon their fat salaries to maintain themselves in comfort, if not luxury. The problem, therefore, is to ensure for those who do the work on behalf of the societies, at least a minimum of subsistence, to supply the motive power which alone can enable the movement to stand on its own feet.

Some Suggestions for Reconstruction in Travancore.

The present position of the movement in the State, as in the sister province of Madras, is one 'which cannot be viewed with equanimity.' It is impossible, within the limits of this paper to present a comprehensive scheme of rehabilitation; but some salient points about the lines it may take can be indicated in broad outlines. The work of reconstruction should proceed in two parallel directions; one, the rejuvenation of dormant societies, and the other, the improvement of working societies, so as to make them a live force in the rural economy of the State.

D Class Societies.

The existence of a large number of moribund or bad societies presents great difficulties. At the end of 1939-40 there were 493 of them. Since then 69 more have been cancelled. Liquidation is the general prescription given to all such societies; and the others are only waiting for their turn. The total number of societies under liquidation now amounts to 552.

It is worth while enquiring whether liquidation is the only possible remedy. Liquidation, especially after the Debt Relief Act of 1940, will be a prolonged and expensive affair; and its effect on the morale of the co-operators is also damaging. Further the results of liquidation work in recent years show that over 90% of the societies cancelled were solvent and a large proportion of their assets are realizable.

The circumstances that led to the cancellation of many societies were brought about by the laxity on the part of the office-bearers especially in the matter of collecting overdues. The Secretary's job is a difficult and delicate one. The adoption of coercive steps against members is particularly irksome, especially when hindered at every step by vested interests. He has also no incentive for courting unpopularity because bonus is allowed only on realized net profits, which is nil in such societies. The remarkable change in the financial position of the Vilavankode taluk bank after a Government inspector was appointed to manage it, at the request of the Committee, shows clearly that many such societies can be revived, if sufficient motive power is supplied.

It would appear, therefore, that the appointment by Government of paid non-officials of integrity to realize the arrears of D class societies, for a transitionary period, instead of appointing more paid inspectors to do liquidation work, would lead to the revival of many of the societies. These paid supervisors may be entrusted with a group of societies in an area and should be made responsible to the local Inspector.

While this method of collection of arrears will bring more money into the society, it can continue to function with its elected committee and secretary, pay off old debts, get new loans from financing agencies, and meet the current needs of its members for productive purposes. This, of course, presupposes the reorganisation of the Central Bank, and financial aid to the movement made available by the Government through advances to the Central Bank.

Taluk Banks.

The organization of 20 taluk banks on the model of the District Central Banks in Madras, for the purpose of financing primary societies, was an unwarranted step which has only complicated matters. Considering the area of Travancore, there was certainly no need for so many institutions of the type. Surprisingly enough, the Devadhar Committee has recommended the constitution of more.

As it is, they are no better than primary societies and compete with them. Even in Thiruvella taluk, which has 125 societies, only 38 have joined the Bank. The Kunnathunad taluk bank has a share capital of Rs. 820. In 1939-40, it issued only 3 loans amounting to Rs. 1,150 and worked at a loss of Rs. 253. There are others still worse.

These banks can have no legitimate place in a scheme of reconstruction. Those beyond recovery may be liquidated. Others may be amalgamated to form 3 District Banks, one for each revenue district. The amalgamated district banks should not give loans to individuals, except on the security of their deposits. They should act as the sole intermediaries between the Central Bank and the primaries. The wider field of activity will enable them to enlist more societies as members, to build a good share capital, and work efficiently with a paid staff, especially if the Government will give a helping hand during the period of transition.

The Scope of Non-Credit Co-operation.

Turning now to the lines on which the working societies can be improved, the first point that deserves attention is the scope of non-credit activities. It has become the fashion of the day to decry credit and extol the benefits of non-credit co-operation. This attitude is meaningless, unless it is based on the needs of the particular region concerned.

In Travancore, of course, there are fruitful avenues of co-operative enterprise, such as rural reconstruction in general, agricultural improvements, weaving, coir making, poultry farming, canning fruits etc. The promotion of cottage industries by co-operative methods in order to engage the spare time of the rural population and supplement their meagre income, is a matter of the first importance. Rural stores and even the indent purchase system are unlikely to succeed, because of the ingrained habits of the people of purchasing their daily requisites, as and when they are required, often in exchange for some staple commodities.

The major field of marketing, however, offers little prospect for co-operation in this State. The success of

co-operative marketing in Western countries has led many to sing its praises, and the Devadhar Committee has joined the chorus and recommended its adoption on a large scale in this State.

Firstly, marketing requires special skill, farsight, judgment, and business acumen, on the part of those in charge of the work. The ordinary Society Secretary often falls far below this standard, and paid service would leave little margin of profit. Secondly the scope for co-operative marketing in the staple commodities like rice, copra, coir, tapioca, etc., is limited. The existing facilities for marketing these produce cannot be said to be very inadequate. There are local markets within easy reach of the rural population, and a large class of small middlemen, who are experts in their business, and who do it for a very low margin of profit, just enough to cover the wages of their labour. Though much is made of the bogey of 'middlemen' in co-operative literature, the conditions prevailing in this part of India do not justify the usual condemnation of that class. They also form a section of the rural population who are struggling to live by honest endeavour. Their competitive methods are a safeguard against the exploitation of the small producers. The co-operative societies, with their heavy overhead costs, clumsy methods, and inexpert knowledge of marketing methods, can hardly hope to ensure for the members a better price than that offered by the middlemen. This explains the failure of many societies which attempted marketing. It explains also, why societies which have adopted the "Kettuthengu" system prefer the method of auction sale to sending the coconuts to the Wholesale Society at Alleppey, which, in spite of a Government grant and the free services of an Inspector, is showing little progress. There is, however, much room for the co-operative marketing of cottage industry products, and canned fruits outside the State.

The disadvantage of the small producer in regard to marketing arises from his dependence upon the middlemen for advances, and if co-operation can remedy this dependence by a wisely directed credit policy, it will have done a real service to him. Credit thus remains the pressing need

of the rural population, and there is a long way yet to go before co-operative credit can meet even an appreciable part of their current requirements.

The Credit Movement.

Some aspects of the rehabilitation of the rural credit societies may also be touched upon.

Lack of education in the fundamentals of Co-operation is acknowledged to be one of the major causes of the failure of the movement in India. The stock remedies are:—public meetings, conferences, lantern lectures, teaching of Co-operation in schools and colleges, Co-operative training institutes, etc. These are certainly necessary to disseminate knowledge of co-operative principles, and train the field workers. But they provide no solution to the problem of people who understand the principles but fail to act up to them. The real co-operative education can only be imparted by the actual practical working of the societies, which will demonstrate to the people the advantages of co-operation, and make these principles part and parcel of their everyday life. Example is better than precept. This can be done only by able leadership and wise guidance.

Payment of Secretaries,—bonus, salary, or whatever we may call it—in order to give them sufficient facilities and inducement to do their best, is a necessary condition of progress. The rule in this State fixing the bonus as a percentage of realised net profits has rightly prevented Secretaries from eating away the capital. But a rigorous adherence to this rule has worked havoc on many declining societies by making them indifferent to the work. It is therefore necessary that a minimum sum should be guaranteed to those secretaries who do the work to the satisfaction of the Department, and an additional bonus may be paid where profits justfy it.

Security of the Secretary's tenure at least for a period of 3 years, subject to the proviso that he may be removed, in case he is found unfit, is very important at this stage. It would ensure continuity of work, conduce to greater efficiency, and prevent self-seeking adventurers from barring the progress of societies. The amended rule, fixing one year

as the period, and requiring the Registrar's sanction for re-election has dissuaded several respectable gentlemen, who were the prop of some societies, from standing for re-election.

Actions against Secretaries guilty of criminal misappropriation should also be prompt and effective. The Managing Committees are, in many cases, not suitable agencies for undertaking this work, as the Secretaries are often very influential, and related to members in the committee. The present reluctance of the Department to launch criminal prosecutions, and the policy of leaving it to be done by the Committee, set a premium on dishonesty.

The credit policy of the societies, *viz.*, issuing loans in proportion to the shares subscribed to, has to be radically changed. The Committees should thoroughly study the financial position of the members, and fix maximum limits of borrowing for each member, irrespective of the number of shares he holds. Crop loans may be encouraged. A scheme of 'controlled credit', on the model of the Madras experiment, may be tried here.

Co-operative societies are not at present in a position to meet the long-term requirements of the rural population; nor are they the best agencies for issuing long-term loans. The Credit Bank at Trivandrum does not answer the purpose, as the minimum amount of a loan is fixed at Rs. 200. There is a need for institutions which could advance loans below that sum. The Credit Bank is unsuitable for undertaking this work, even if it were to establish branches, because it is a shareholders' bank. It would be a boon to the agriculturists, if Government would establish three Land Mortgage Banks, one for each of the revenue districts, for this purpose. The present juncture is particularly opportune, because it will enable the agriculturists to take full advantage of the concessions granted by the Debt Relief Act.

Repayment in kind, which is the easiest form of realizing debts, has been attempted with great success in Burma in recent years. The remarkable extent to which the 'Kettuthengu' has succeeded in this State should encourage societies to develop that and other forms of repayment in kind.

The promotion of thrift should be made a major item in the work of credit societies. The experiment of 'home savings boxes,' which has succeeded in some provinces especially in Bengal, may be tried. The 'Kettuthengu' should be used not merely as a method of realizing loans, but also as a form of thrift. Further the system of monthly instalments for payment of shares, can be utilised to promote thrift, by insisting that every member should take shares continuously, until the paid-up share reaches at least Rs. 100. This would entail no hardship, as only 4 as. need be paid on a share every month, and it would help the poor to build up savings.

Conclusion.

The conclusion is irresistible, that the success of rural co-operation in this State must depend upon the success of the credit movement. "Credit," in the words of Sir Horace Plunkett, "is the most educative form of Co-operation for backward rural communities, when the principle and system of Co-operation have to be introduced into their industry, their business and their lives." Where credit is successful, it is possible and desirable that societies should expand the sphere of their activities in other directions as well. Where credit fails, for want of suitable agencies for increasing the earning capacity of the members, such other activities as will rectify this deficiency will be a necessary corrective. But where the credit society fails, for want of co-operation among the members, and a bankruptcy of leadership, it is chimerical to suppose that a multipurpose society will thrive. A reorientation of primary societies, and a reorganization of financing agencies on the lines indicated above, will, it is hoped, help the movement to get out of the morass; and ensure for it a bright, but distant future.

SUMMARY

Rural Co-operation in India is best studied on a regional, rather than on an all-India basis. This paper attempts a study of the working of Co-operation in the rural areas of Travancore; where there is a comparative absence of village life the density of population and literacy among the people are exceptionally

high, the burden of indebtedness is heavy, and credit facilities are inadequate. The principal features of agricultural societies in the State are: the preponderance of credit, high membership and share capital, low deposits and working capital, a high proportion of unproductive loans, and heavy overdues. A special feature is the "Kettuthengu" deposit, which is at once a means of promoting thrift, and a method of easily realizing loans. The movement has steadily declined since 1931: not only due to the economic depression, but also to the lack of education in co-operative principles, the defective credit policy, the laxity of office-bearers, etc.

Only a comprehensive scheme of reconstruction undertaken by the State, can rejuvenate the movement. But no scheme which fails to take into account a vital deficiency in the theory of Co-operation, when applied to India, namely, want of motive power to induce those who shoulder the burdens of office to do their best, can hope to succeed. The broad lines on which reconstruction can be effective are indicated. Cancellation should be discouraged as a policy. The appointment of paid supervisors to do collection work might, in the particular conditions of the State, succeed in reviving dormant societies. The reorganization of the Central Bank, the amalgamation of the Taluk Banks to form three District Banks, and financial aid from the Government are necessary. The scope for non-credit activities, especially marketing, is found to be limited. The soil is not congenial, at this stage, for multi-purpose societies to thrive. The credit movement can be improved: by better practical education, by ensuring a minimum of subsistence and some security of tenure for the Secretaries, by prompt action in cases of misappropriation, by radically changing the credit policy, by encouraging payments in kind, and promoting thrift. The success of rural co-operation in Travancore will depend upon the success of the credit movement.

PUNJAB COOPERATION DURING A DECADE OF DEPRESSION

BY

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The Punjab, the sword-arm of the Empire, proudly styled as the 'Denmark of the East,' is by common consent the stronghold of cooperation in India. How has a decade of depression affected the working of cooperation in all its phases in that province, is a fascinating study which if made in detail will make interesting revelations into the nature of problems on a proper solution of which depends not only the prosperity of rural Punjab but the future of cooperation in this country. In the limited space at my disposal, I intend to restrict myself to a study of the effects of depression on the working of Agricultural Cooperative Credit Societies in the Punjab.

The general depression began in 1927-28, but assumed ever-increasing intensity since 1929. By 1931, the situation had reached a pitch which made the Punjab Registrar rightly observe:

> "One can, however, take judicial notice of the appalling economic conditions, which as is usual, hit the farmer more than anyone; for he feels the fall first, and gets the benefit of recovery last. He is without doubt the backbone of the country; but the strange physiology of the body politic brings it about that in times of sickness and starvation the backbone and not the fat, seems to be the first part to waste away or be consumed."

Fall in Recoveries.

The fall in the income of the agriculturists had an inevitable sequence in the diminished capacity of members

for repayment of loans to Societies. The percentage of repayment of the principal outstanding which was 35 in 1926 and 33 in 1928 fell to 28 in 1929 and then recorded an abrupt fall in 1931 to 16, touching the lowest figure, 13 in 1933. Since then with the exception of the year 1936 when it went down to 13·6, it has been steadily rising. The percentage of recoveries on the principal outstanding was 16 for 1939. A 54% fall in recoveries as compared with figures for 1926 indicates either the peasant is still in the grip of depression or he is insolvent or he does not wish to honour his obligations and the Department in spite of all the odium heaped upon it, in this behalf, is hopelessly helpless.

Desertions.

As the effects of depression began to be felt in the form of fall in repayments, to remedy which, the Department virtually had to bring the movement to a standstill, loans were restricted and recoveries began to be affected by means not always pleasant. Such members who were both morally and financially sound began a stampede out of the Societies like rats deserting a sinking ship. The enforcement of unlimited liability clause for recoveries and realisation of debts from sureties which had become an absolute necessity, combined with the methods of recoveries, which to say the least were in no way different from those of the unscrupl-ous Sahukars, made the members realise that safety lay in being out of the reach of the shot by quitting the societies. The annual increase in membership which was well over a lakh for a period of three years ending 1929, dwindled to 15,458 in 1932, in which desertions numbered over five thousand. The Department had to use all its authority and resources to check this out-flow and the general opinion is that a very few members continued purely for the love of the movement.

Restriction on Loans.

Concentration of all possible effort on recovery of loans, it was felt, will be of little avail if new loans were to be granted with unabated liberality. Under instructions from the Department loans to members and Societies were to be

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advanced with greater circumspection and for productive purposes alone. This restriction brought down the annual loans of the Societies to members from Rs. 216 lakhs in 1929-30 to Rs. 79·6 lakhs in 1932. The policy still continues and in the year 1939 net fresh advances amounted to Rs. 103·84 lakhs which is still over fifty per cent less of the figure in 1929-30.

Arbitration and Execution of Awards.

As the effect of depression began to be felt references to arbitration became more frequent, the figures jumped from 15,195 in 1929, to 26,849 in 1937, after which year owing chiefly to various forms of relief granted, the figure declined, but is still practically the same after the lapse of a decade. The figure for 1939 stands at 14,852. The number of awards taken to courts has more than doubled (6773 in 1929, and 14,552 in 1939) whereas the amount thus claimed has risen from 35 to 46 lakhs.

In spite of the special machinery for execution of awards the process proved to be hopelessly slow and costly beyond all estimate. The execution agents and baillifs did not escape the fate of liquidators and bleeding heads and broken ribs were the reward for their performance. The cost in some districts is even now inconveniently high and stands at 20·1 per cent in Rohtak, 21·8 per cent for Ambala, 24% for Jhung, 22·3% for Campbellpur and 35% for Mianwali. The Registrar explaining the difficulties of execution of awards observed in 1935:—

> "It will be readily understood that between the indifference and even the opposition of Societies on whose behalf they are acting, the admitted difficulties of executing civil decrees through courts at the present times these Unions are faced with a task which calls for the greatest resource, patience and vigilance."

The difficulty of realisation of dues experienced by Societies has been growing in intensity to such an extent that the Registrar in his Report for 1938, pleaded for grant of special facilities in this behalf.

"Recent debt legislation has not only afforded greatly increased protection to the agriculturist debtor against the realisation of debts by civil process, but it has also undoubtedly encouraged him to resist the payment of debt whether or not he has the means to repay. The sense of moral obligation to repay is getting weaker and weaker in almost every corner of the Province. If it is admitted that credit is in some degree necessary for the agriculturist and the best channel for that credit is a Cooperative Credit Society, Government will, I think, have seriously to consider the advisibility of giving the Societies special facilities for execution of their awards, whether through the Civil Courts or otherwise.

Insolvency.

When the intensity of depression and the rapid multiplication of debts made the peasant realise the hopelessness of his situation such members of the Societies who were indebted to the Sahukars as well and, their number is larger than the most liberal of estimates, shook off their notions of *izzat* and thought of repudiations of debts through insolvency. In 1932, there were 1077 such applications in which the dues to Societies amounted to well over 5 lakhs. An enquiry by the Department disclosed that the device had a special appeal in those tracts where contrast between the past prosperity and the intensity of the prevailing depression was most marked or where borrowing had been specially reckless. The tendency was noticeable (even in canal colonies) on the part of big but heavily indebted landlords to choose this short cut to freedom. Even big landlords were in some cases so heavily indebted that they could not during their lifetime ever hope to repay. But perfectly solvent debtors of the Societies could not, in fairness to the movement, be allowed to seek shelter under insolvency. When fictitious applications became alarmingly common the Department suggested that the Societies and Central Banks far from behaving as helpless witnesses to their own ruin should undertake to contest insolvency applications in courts of law so as to expose the fictitious transfers of property and check the growing tendency to take fraudulent advantage of the

provisions of the Insolvency Act. Of the 482 cases in 1936, 376 were contested and in the end 226 cases were declared insolvent. The total amount of loss incurred by Societies through insolvency of members in 1936, and 1939, the only years for which figures have been given amounts to Rs. 1,16,298, suggesting of course that the total losses on this account must have been quite considerable. It appears that resort to insolvency was at one time the direct outcome of the pressure exerted by the staff of the Department for recoveries. The debtors quietly took up the line of least resistance with considerable advantage to themselves and immense embarrassment to those in charge of the movement. The decrease in the number of applications was originally attributable not to any improvement in the position of the debtors but to the "deliberate relaxation of pressure against any but the most obstinate defaulters." As the Societies were by themselves alone quite ill-equipped for taking any relief measures, the Central Banks which had quite an equal stake in the matter came to their help. The Banks decided to hold a special inquiry in villages, where applications for insolvency were general and to grant, if need be, special facilites and concessions to debtors of Societies so as to kill the incentive to insolvency and thus to redeem the debtor, the Society, the Central Bank and above all the movement. The number of applications in 1939, fell to 159 and the amount involved was estimated at Rs. 1 lakh.

The growing decrease in the number of applications for insolvency is not only due to a relaxation in the use of coercive process but to an ever-increasing realisation by the debtor of the fact that other more pleasant and comparatively more graceful methods of avoidance of payment can be easily adopted.

Debt-Conciliation Boards.

With the establishment of Debt Conciliation Boards in the Province the Societies got involved in another distress. Members of Societies who were indebted to Sahukars began applying to Boards for conciliation of their debts. Debtors of a Cooperative Society cannot seek a settlement of their debts by a Conciliation Board. But the working of the

Conciliation Boards has had a highly adverse effect upon the normal life of a Society. From 1936 to 1939, in a period of 4 years 4,888 members of Societies whose indebtedness to Societies amounted to nearly a lakh of rupees applied for conciliation of their debts. The settlement of debts by Boards has so far adversely affected and will continue so to affect "the chances of Societies recovering any substantial portion of their loans."

Deterioration of the Societies.

When scarcity of repayments swells the overdues, the classification of Societies is adversely affected. An idea of the state of deterioration touched by societies may be had from the fact that by the year 1933, the percentage of societies which in 1926 stood at A 4·25, B 26·25, C 62, D 7·5 had fallen to A 1·9, B 10·79, C 76·1 and D 11·19. For purposes of comparison put in another form we can say that fall in A and B class societies, was 55·29 and 58·13 per cent respectively. The rise in C and D class societies had by 1933 amounted to 22·58 and 49·2 per cent respectively. Societies have now been classified into A, B, C and D. The Department now gives figures for A and B classes taken together and the latest Report, 1939, shows that A and B form 16·5 and D forms 18·6 per cent, whereas if the old method and expression of classification is followed we find A class claiming 2, B 14, C 64 and D 19% of the societies. In spite of the new classification of C societies into C_1 and C_2 the Registrars' admission that the number of D would be greater if classification were made strictly according to rules, is significant.

Liquidation and Cancellation of Societies.

Despite all care lavished on and leniency shown to societies the casualties have been very abnormal, as the number of societies cancelled and brought under liquidation in recent years indicates. The number of societies under liquidation which stood at 231 in 1923, rose to 259 in 1926 and then recorded a steady increase reaching 965 in 1933 and stood at 1,600 in 1939. The cancellation of societies has not much varied from 310 in 1927 to 343 in 1939.

Liquidation was accompanied with various difficulties and endless delays. Opposition to liquidators assumed the form of open violence and assaults on the officials of the Department showed an alarming tendency to increase. The enforcement of unlimited liability clause although very sparingly resorted to brought the movement much unpopularity and odium. The liquidators' job was found to be not only exceedingly unpleasant but increasingly dangerous at the same time. The villagers combined to resist the liquidation process and honest liquidators could not be had for love or money. Nearly half the number of societies under liquidation in 1938 were cancelled over 5 years earlier.

Relief.

By 1933, the depression had so deeply affected the members that the societies realising the hopelessness of the situation thought of affording as much relief to members as was possible. The relief assumed the following forms:—

1. Demands were fixed at a very low level so as to facilitate and adjust repayments to the capacity of members.
2. Substantial rebates of interest to punctual repayers.
3. Rates of interest were reduced wherever and as for as possible and in the case of societies with no outside liabilities the loans to members were treated as free of interest.
4. Lowering of share instalments.
5. In some societies in which shares were non-returnable, bye-laws were amended making them returnable and share money was adjusted against members' loan accounts.
6. All Central Banks lowered the rate of interest they were charging on the money lent to societies.

7. Central Banks allowed a rebate on the repayment of interest by societies.
8. Central Banks suspended interest and received payment from D class societies as capital.
9. In cases of special calamities like floods certain Central Banks granted interest-free loans to societies which were passed on to members as a measure of relief.
10. Borrowing limits of members which had been sharply curtailed were relaxed in order to meet their genuine needs.
11. Central Banks cooperated with societies in paying for additional staff for propaganda and recovery.
12. With a view to improving recoveries Gurgoan, Rohtak and Karnal Banks and unions instituted a Grain Payment Scheme under which debtors were enabled to pay in kind.

The movement was affected in all its branches and the effect of depression, through the deterioration of societies, on Central Banks is an interesting and revealing study by itself which for lack of time it is not possible to take up. The effects of depression were particularly damaging in the south-eastern districts of the Punjab where special measures had to be adopted to prevent a collapse of the movement.

Special Measures for Revival of the Movement.

The depression brought about an indescribable deterioration of the movement and all constructive activities came to stand-still. The severity of the blows of depression literally stunned the movement and all those connected with it. In 1937, with Rohtak and Karnal two of the worst affected districts as the centres of revival, an army of field workers went into action. The staff of the Department when extricated out of the mire of despair and despondency was asked to convey the message of hope in an honest enthusiasm for the revival of the movement to every

cooperator. Personal contact the lack of which had bred feelings of mutual and growing estrangement between the members of societies and the staff re-established a cordiality of relations so essential to the revival of the movement. The greater personal touch enabling the staff to form a fair estimate of the income and resources of members made it easier to apportion repayments to the paying capacity of the members. Members made written promises to save societies by honouring their obligations. Detailed enquiries into the income and resources of members made it easier to classify debts as safe, doubtful and bad. Loans due to societies by members who owned no property, or by those who had died without leaving any property or heir to acknowledge their debts, or by those whose whereabouts had not been traceable for a whole decade or by those who had been declared insolvent were put down as bad debts, for any attempt to effect recoveries in such cases was very much like flogging a dead horse. The repayment of debts by easy and long instalments was rendered effective by legal proceedings against defaulters whose capacity to repay had been established on enquiry. Such a procedure had a very healthy influence on repayments, for it put an end to wilful default on the part of those who could repay. It was realised by the workers that cases of default due to genuine inability to honour obligations in full needed remission and concessions. Full cash repayment of the entire loan was rewarded with a complete or partial remission of arrears of interest normally amounting to 50%. Future interest on loans was stopped and recovery of the outstanding loan was to be made in easy instalments extending over a period of 10—20 years. The debtor was asked to execute a fresh bond with better security and withdrawal of concessions in case of default was an express term of the renewed contract. Central Banks began taking a keener and a more intelligent interest in the fortunes of the societies which constituted the very foundation of their own financial stability. The machinery of execution of awards was reorganised. As a help to the members and in the interest of the future of the movement fresh loans of small amounts and for short periods began to be advanced for current needs. Better type of people were enlisted as

members in order to provide the societies with reliable and influential leadership. The success of attempt in Rohtak and Karnal led to the adoption of these measures in Gurgoan and Hissar in 1939 with astonishing results.

Conclusion.

The depression for a time practically paralysed the movement in all its aspects and although the Department may be said to be making honest and heroic efforts to infuse a new life into the movement, yet it cannot even still be declared out of danger. The Punjab peasant with all his virtues is still not the stuff essential to the success of the movement and the staff of the Department with all their spirit of sacrifice and devotion to the cause and the brilliant leadership they have always enjoyed, is so sadly overworked as to excite the pity of those interested in the progress of the movement. Those at the helm of affairs in the Punjab who seem to be assuring the Zamindar that power has now passed into his hands must set themselves to the task of reviving the movement with courage and vision and realize that no cost is too high for the undertaking and the Department whose proud achievements have been humbled, given reasonable encouragement and proper facilities, is perfectly competent to reconstruct, in course of time, a happier and a brighter Punjab.

SUMMARY

The depression which started in 1927-28 began to make its effects felt with increasing severity since 1929. The depression affected every aspect of co-operation but it is proposed to consider the effects of depression on the working of Agricultural Co-operative Credit Societies alone.

Fall in recoveries was the first effect of the depression. The percentage of recoveries of the principal outstanding fell from 35 in 1926 to 13 in 1933. The figure for 1939 indicates a 54 per cent. fall as compared with figures for 1926.

Membership of Societies began to decline and there were wholesale desertions to check which various measures had to be adopted by the Department. As the recoveries grew smaller and slower new loans were considerably restricted. Difficulties in voluntary

payments forced the Societies to have recourse to arbitration for settlement of dues and the awards so secured had to be executed with considerable difficulty. There was determined opposition on the part of members to execution of awards.

The number of applications for insolvency showed a tendency to increase and involved the Societies in considerable losses. Such applications were contested in Courts of Law and their number has gradually declined. The working of Conciliation Boards has adversely affected repayments of loans to Societies. Special facilities for realization of debts, in view of the new debt legislation, have been asked for. The classification of Societies indicates an immense deterioration. Number of Societies under liquidation which stood at 231 in 1923 is steadily rising and stood at 1,600 in 1939. Various difficulties have been experienced in liquidation and the cost of the process is very high. Relief in various forms became necessary as early as 1933. By 1937 special measures had to be adopted in south-eastern districts to avoid a collapse of the movement.

The Government should give all possible help to the Department for the revival of the movement.

CO-OPERATIVE MULTI-PURPOSE SOCIETY

BY

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Need for Re-orientation of the Co-operative Movement.

The co-operative movement in India has in recent years been brought under the searchlight of critical scrutiny and subjected to a healthy process of introspection. Students of co-operation in India are aware that several weaknesses, such as the unpunctuality of payments, fictitious payments, excessive overdues, defective audit, slack supervision, nepotism, redtapism, inelasticity, dilatoriness and inadequacy of co-operative finance, had crept into the co-operative movement during the years of its hasty expansion preceding the onslaught of the Great Depression, which forcefully brought these defects into limelight. The co-operative movement, which had been hit hard by the worldwide economic Depression, had reached a very critical stage when Provincial Autonomy was introduced, and there was a persistent demand from every quarter for the adoption of measures for its rehabilitation. Official booming of the movement made room for a genuine desire to find out its faults and to strengthen it by removing them. Apart from self-criticism by prominent co-operators, helpful advice and suggestions have been offered by the Reserve Bank of India through its Agricultural Credit Department with a view to the re-orientation of the co-operative movement; and although their respective viewpoints have not always been identical, both the parties have learnt a good deal from one another.

A comprehensive programme of co-operative planning is being gradually evolved in the various Provinces and States and the rehabilitation of the co-operative movement has been taken earnestly in hand.

Re-organisation of the Village Credit Co-operatives.

It is generally recognised that the weakest part of the Indian co-operative structure is the primary village credit society, which constitutes the base of the co-operative pyramid. Among the several suggestions, which have been made with a view to strengthen it, the pride of place goes to what is called the multi-purpose society. It is proposed in this paper to discuss the main issues raised by this proposal, which has been assiduously and consistently advocated by the Reserve Bank in all the Bulletins and the Statutory Report on Agricultural Credit issued by the Bank's Agricultural Credit Department.

Case for Multi-Purpose Society.

The Co-operative Movement in India started with small simple credit societies with the object of educating their members in the value of use of money and of dispensing controlled credit to them. Although these societies have been of some service to the farmer in reducing the rate of interest on loans, it must be frankly admitted that they have failed to achieve the laudable objects which inspired the launching of the co-operative movement in this country. There is a general and growing conviction that the agricultural credit movement has not yielded results corresponding to the effort made and that the time has arrived when it is desirable and possible to broaden the base of the primary unit. The comparative failure of rural credit co-operation may be largely attributed to the fact that it addressed itself to the solution of the problem of credit only and did not simultaneously take up a campaign against all the causes, which give rise to it and make for unbalanced budget of the farmer. In practice, it has been found that it is difficult to achieve the economic ends of rural credit co-operation so long as credit is divorced from supply and sale. In order to ensure the fullest benefit from the supply of credit it is necessary to link it up with purchase and sale and to secure proper co-ordination between them. No doubt in recent years non-credit agricultural co-operation has made some progress by establishing societies for the consolidation of

holdings, purchase and sales societies, better living societies and so on; but even now the original emphasis on credit has not been sufficiently relaxed and co-ordination of the various credit and non-credit activities is lacking. It may be pointed out in this connection that in many of the rural credit societies their bye-laws provide for the society undertaking functions other than credit. But in practice these have not been taken up due to diverse reasons, such as the existence of unlimited liability, lack of natural resources and of the men with the necessary initiative and ability. The Indian Co-operative Movement has until recently been based on the plan of the single-purpose society, and the organization of a separate society for a separate purpose as in Denmark. The possibility of organising in each place as many separate societies as the problems, which give rise to the deficit budget of the agriculturist is remote, and even if this was practicable it would result in considerable waste of effort and duplication. It is also doubtful if such disjointed efforts can achieve a single goal. What is possible in advanced countries like Denmark, where the farmer is educated and knows his own business and where the entire business of farming is organised on economic lines, is not possible in the case of a country like India, where the farmer is ill-educated and conservative with no incentive to improve his standard of life. The chief practical objection to the plan of a single-purpose society arises on account of the paucity of the right type of men for the management of several societies in a village. Besides, it should be borne in mind that the Indian agriculturist does not much relish multiplicity of agencies, being accustomed to deal with the *sahukar* for his various needs, such as supply of credit purchase, sale, etc. To put it in the words of the Reserve Bank Bulletin No. 1, "His whole psychology of life must be changed and if this is to be done it is necessary that he should be taken up as a whole man and that all the aspects of his economic life should be dealt with by the same agency." In other words, the village society, which is the pivot of the whole co-operative movement, should be so reconstructed as to bring the entire life of the village cultivator within its ambit in order to effect his economic regeneration.

In actual practice also it has not been found possible rigidly to keep to the single-purpose society advocated in theory. For example, credit societies have sometimes found it profitable to arrange for the sale of members' produce and marketing societies make an advance not only against produce but also for production. Again, what are called the better living societies are in fact multi-purpose societies. What is now necessary is to effect adequate enlargement of the economic activities of the village credit co-operatives and help the village in the triple programme of "better farming, better business, and better living." For achieving this goal there should be established what are called multi-purpose societies. These may be formed either *de novo* or by converting primary credit societies into the new type. The scheme of multi-purpose societies or 'co-operative village banks' as they are called in Reserve Bank Bulletin No. 2, as outlined by the Bank, appears to be very ambitious as the following extract from Bulletin No. 1 will show: "Starting with credit for current needs, a society may get the old debts of its good members liquidated through a land mortgage bank, introduce better business and better monetary return by inducing its members to sell their produce co-operatively, ensure their growing the improved varieties of crop by purchasing seeds for them, save on purchases by arranging for the purchase of their other needs jointly and at profitable rates on an indent system without incurring any risk or liability, save litigation expenses by effecting arbitration, improve the outturn of crop by consolidation of holdings, supply of pure seeds and improved implements, supplement the income of its members by inducing them to take subsidiary industries, introduce better living measures by adopting bye-laws by common consent which will curtail ceremonial expenditure and remove insanitary habits, provide medical relief, and so on." Not only economic objects properly so called but even civic amenities, which fall within the purview of administrative bodies like village punchayats, are included in the programme of the multi-purpose society or the village bank. It has been argued that Nicholson supported the idea of such a village bank in his monumental report (1895—97). But as Dr. J. P.

Niyogi points out in his book, *The Co-operative Movement in Bengal*, "there is no support in the pages of Nicholson's Report for the view that credit societies should, besides combining the functions of better living societies, production and marketing societies, also take up the work of village reconstruction societies and deal with such matters as rural sanitation, medical relief, rural water supply and rural communications."

Benefits of Multi-Purpose Society.

Several advantages have been claimed for the multi-purpose society.

In the first place, greater loyalty and sustained interest of members will be ensured by the multi-purpose society as it will come into touch with the farmer, his business and his living, through its efforts for the satisfaction of all his economic needs. It will also be able to win the confidence of its members and to exercise a better educative influence on them. On the other hand, the single-purpose credit society is apt to degenerate into an indifferent money-lending institution.

In the second place, the multi-purpose society will be able to save its members from the evils of cash economy in the present village environment. It is so often the case that if an agriculturist is entrusted with cash he either spends it extravagantly or does not get his money's worth. The multi-purpose society will dispense credit largely in kind, whether required for agricultural production, or household requirements, and receive payment in kind and thus prevent money slipping through the fingers of the farmers and going into the pockets of the middleman. It will thereby be able to supply controlled credit and prevent reckless borrowing, particularly for unproductive purposes.

Thirdly, the multi-purpose society, which will operate over a wider area than the single-purpose society (see below), will be able to secure more economical and efficient management, in point of both men and resources, assisted by paid employees.

Fourthly, such a society will be better able to play a useful rôle in rural uplift and undertake work of economic

and social improvement. As the Madras Committee on Co-operation (1940) makes it clear, there is no need to discourage the formation of agricultural improvement societies, land reclamation societies, colonisation societies and the rest. But the main effort should be to reorganise existing societies and constitute new ones in such a way that a single organisation will secure as far as possible all the economic needs of the villager. There will be no need to have separate better living societies, education societies, arbitration societies, or supply societies in the villages, which have a satisfactory primary multi-purpose society. A single co-operative organisation will thus be able to make its contribution to village welfare through joint work and responsibility. In particular, the multi-purpose society will be in a better position to introduce improvements and intensified methods of cultivation, e.g., by acquiring areas for common seedbeds in order to secure uniformity of crops.

Lastly, the multi-purpose society may be utilised in the organization and promotion, under proper direction and suitable safeguards, of simple subsidiary industries connected with agriculture, such as dairying, poultry-keeping, etc. Separate organisations, however, will be preferable for village industries which require special technique, finance or marketing arrangements.

Objections to Multi-Purpose Society Considered:—

The idea of multi-purpose society as outlined above has not met with unanimous approval, and there is a good deal of opposition to it on the part of some eminent co-operators and expert authorities. For instance, the Royal Commission on Agriculture was opposed to it and favoured the single-purpose idea with certain exceptions based on reasonable grounds. Eminent co-operators like Mr. C. F. Strickland are also opposed to the multi-purpose society, and even the Registrars' Conference (1939) has recommended its adoption only as an experimental measure.

We may now proceed to review the main grounds on which opposition to the plan of multi-purpose society is based.

In the first place, it is argued that the business ability of the villager, which is sometimes unequal to the conduct of even a single enterprise may be overstrained in attempting several. The business of the multi-purpose society will involve difficulties of account-keeping and in keeping the several businesses separate. It may be, however, pointed out that a wider area of operations will offer a broader basis of selection and is thus likely to supply a corrective to the dearth of suitable men.

Secondly, in the words of Mr. C. F. Strickland, "a society aiming at a general uniform, not at a specific and limited object, is in danger of becoming cumbrous in mechanism and unintelligible to the simpler members. It then passes into the hands of an educated oligarchy and loses its co-operative quality. Societies which ambitiously try to carry on several activities soon become highly complex and technical and probably end in disaster." One need not, however, make a bogey of an "educated oligarchy". As Sir T. Vijayaraghavachariar in the course of his Presidential Address delivered at the United Provinces Co-operative Conference (1940) pointed out, "One of the ways of giving a new life and a new orientation to the co-operative movement is in my opinion to attract a large number of educated young men now available into the villages to give their assistance to the less educated villagers in working societies." It may be pointed out in this connection that under the scheme sponsored by the Government of Bombay for the training of rural assistants some of these are being made available for appointment as secretaries of the multi-purpose societies at the villages where they may be appointed to work.

In any case members in general and office-bearers in particular would have to be better acquainted with the principles and practice of co-operation and conversant with business methods. The area will have to be selected with great care and similar care will be necessary in selecting promoters. Then again, as suggested by the Madras Committee on Co-operation efficient supervision will have to be provided, if the new type of society is to be prevented from going wrong. It may be added that the Registrars'

Conference (1939) sounded a note of warning by asking the Multi-purpose Societies to be started only as an experiment to be cautiously tried.

Thirdly, there is a danger that failure of one of the lines of business might affect other lines undertaken by the multi-purpose society. This will further increase the difficulty of securing the much larger share capital, which the multi-purpose society will require as compared to the single-purpose society. In this connection, it may be pointed out firstly, that the multi-purpose society should gradually undertake more and more functions as it acquires experience so as to minimise the risk of failure, and, secondly, that it should avoid regular trading in speculative enterprises, which, if they result in loss, would spell disaster to all the members. There is no harm, however, in the multi-purpose society doing, for instance, some supply work on indent system and offer facilities for marketing as agents of central sale societies to which they should be affiliated for this purpose.

Disadvantages of Larger Area of Operations.

Fourthly, it is argued that multi-purpose societies operating over a group of villages extending over a radius of three to five miles would not be able to secure that close mutual knowledge and trust so essential for the success of the co-operative idea which is best fulfilled by having one society for each village. Further, as the Officer-in-charge, Agricultural Credit Department of the Reserve Bank of India, pointed out in the course of his evidence before the Madras Committee, "Co-operative organizations are a training ground for villagers in business methods, and such training can be had only in a small unit. Moreover, it accords with the tradition that the village in India has been the unit of corporate activity."

On the other hand, it may be pointed out that the village is in some cases no better than a mere administrative concept and is often torn by factions. No particular advantage seems to have been reaped by the existing credit societies which have been confined to their respective villages for over a generation. Extension of the area of operations of the

village society may make it possible to check or overcome factious tendencies in the villages. It should also be borne in mind that generally villages are situated close to one another and there is among them an intimate identity of agricultural and economic interests. Social bonds too throw them together, securing in a reasonable measure the fulfilment of the principles of proximity and corporate life. Further, there is the consideration that village co-operatives are business organisations and many of them have not been paying their way and are uneconomic. Moreover, credit activities of the village societies have been curtailed in recent years as a result not only of the deterioration in agricultural economy, but also of the birth of new organisations such as land mortgage banks and sale societies. Village group societies will be able to work at a margin, employ the requisite paid staff and build up reserves. There will also be, as said before, a wider scope for the selection of the proper men to carry on their business efficiently.

Unlimited Liability vs. Limited Liability.

Lastly, it has been argued that as the multi-purpose society will combine in its own hands credit and non-credit functions, unlimited liability, which is essential for securing deposits and credit on moderate terms, particularly for persons without visible property and for ensuring effective supervision by members, cannot be easily fitted in with the non-credit functions of the society. Indeed, multi-purpose societies are being organised in Provinces like Bombay and the United Provinces on a limited liability basis and the Madras Committee has recently by majority recommended the adoption of this form of liability by the reorganised village credit society with enlarged functions.

There has been a good deal of controversy in recent years regarding the working and suitability of unlimited liability, which is one of the basic principles of rural co-operative credit organisation in India, based on the Raiffeisen model. Critics of unlimited liability have argued that it has outlived its utility. It has in recent years caused hardship to the members, some of whom are non-borrowers or

non-defaulters and has brought the movement into general disrepute. It has further kept away the solvent or better classes of agriculturists whose sympathies and material and moral help, if secured, would contribute to efficient management of the society. Unlimited liability may be and is sometimes shirked by members who alienate their properties fearing liquidation of societies. It is also a fact that members of a village co-operative society seldom act as sentries on one another as regards the use of credit and often indulge in over-financing.

Finally, it may be pointed out that recent opinion in European countries is in favour of doing away with the ideal of joint and several liability.

There is, however, a large body of opinion which insists upon the continuation of unlimited liability as the rock-bottom foundation of village credit co-operation. While we agree with the view that there is no strong evidence to show that unlimited liability is alone or in any appreciable manner responsible for the stalemate in many of our existing societies or for the slow progress of the movement in the country, we yet venture to think that at this stage of the development of the co-operative movement the reorganised village society will need a form of limited liability both for the purpose of creating confidence in the public and securing efficiency in dealing with a group of villages and in extending its functions to other work than credit. We agree with Dr. B. V. Narayanswamy Naidu that "The urban Co-operative Societies, which have been worked on the basis of limited liability, have not ceased to be co-operative; and there is no reason why the principle should not be adopted for the larger rural societies proposed to be brought into existence." In this connection, the alternative suggestion that while unlimited liability should apply to the credit transactions of a multi-purpose society, its non-credit activities may be based on limited liability may also be carefully considered. In any case, no fetish should be made of unlimited liability and full discretion should be given to local co-operative authorities to adopt one or the other form of liability according to local conditions and needs.

Increasing Acceptance of the Plan of Multi-Purpose Society.

The foregoing discussion of the pros and cons of multi-purpose society indicates that expert opinion in this country has not yet crystallized in favour of it, although there is a growing volume of opinion in favour of reorganising the primary credit society on a multi-purpose basis. While on the one hand, the initial enthusiasm raised by the Reserve Bank's advocacy of the multi-purpose plan has sensibly cooled down and it is no longer looked upon as a panacea for all the socio-economic ills in the village, at the same time the need for tackling the rural problem on a co-operative basis on all fronts through a unified agency in a co-ordinating manner is being increasingly recognised.

This is indicated by the fact that co-operative opinion in the several Provinces and States is in favour of broadening the base of the co-operative structure. For instance, the policy of establishing multi-purpose societies was endorsed in the Joint Report submitted to the Government of Bombay in 1937 by the Registrar and Mr. Vaikunth L. Mehta. Dr. Katju, Minister in charge of Co-operation in the United Provinces, took up the matter in right earnest and launched an extensive campaign of multi-purpose societies in that Province. More recently the Madras Committee on Co-operation, presided over by Sir T. Vijayaraghavachariar, has strongly favoured the reorganisation of the village credit societies on a multi-purpose basis. Even the Registrars' Conference (1939) which appears to be somewhat sceptical about the new plan, recommended that the Provinces should experiment with multi-purpose societies and note the results. It may be added that the experience of several countries other than Denmark also lends support to the idea of multi-purpose society. As Mr. Calvert points out, in Bavaria, Saxony, Belgium, Australia, Japan, etc. the credit society or the local bank does many other things besides supplying credit.

Although the idea of multi-purpose society is thus receiving increasing acceptance, the various criticisms of the new pattern serve to indicate the difficulties in the way of

its introduction and its limitations. For instance, in the words of Sir T. Vijayaraghavachariar, "While we should appreciate the possibilities of employing it (multi-purpose society) under limitations to good purposes, we should not cherish the illusion that it is going to change the farmer's psychology and outlook on life. An intellectual revolution like that is not accomplished by change in machinery." One thing is certain that with changing times and circumstances nothing will be gained by sticking to old world ideas and to co-operative conservatism. So far as the enlargement of the economic functions of the village credit society is concerned, it is in accordance with the original Raiffeisen idea. The extension of the area of operations and the adoption of the principle of limited liability are no doubt a departure from the Raiffeisen pattern. Undue conservatism, however, even in the co-operative field is as unjustifiable as in other spheres of life, and it is therefore gratifying to note that multi-purpose societies are being introduced, though in an experimental way, in several provinces in India such as the United Provinces, Bengal, Central Provinces, Bombay, and some Indian States like Mysore.

Progress made by Multi-Purpose Societies in the United Provinces and Bombay.

Special mention may be made of the progress made by the new type of society in the United Provinces and Bombay.

The United Provinces have launched a bold experiment of the formation of multi-purpose societies on limited liability basis and converting some of the A, B and C class unlimited liability societies into limited liability and organising new societies on the same basis. There are about a thousand such multi-purpose societies or village banks as they are called in the Province. These banks are intended to tack on to credit marketing, supply of agricultural implements and better living societies. All these activities are not, however, simultaneously introduced into every society but are being gradually extended. With the policy of organisation of village banks restriction is placed upon registration of new societies with purely credit operations. Other provinces will no doubt

watch with interest this enterprising experiment in the United Provinces. It may be pointed out here that Sir T. A. Ramalingam Chettiar in the course of his Presidential Address at the last (1941) U. P. Co-operative Conference struck a serious note of warning to the U. P. Co-operators that they were going too fast and stressed the benefits of unlimited liability, mutual knowledge and supervision—the three fundamentals of a Raiffeisen Society.

In Bombay the tempo of the new experiment is less fast and more cautious, although very active propaganda is being carried on in rural areas for explaining to the agriculturists the utility of multi-purpose societies. Such societies are being organised on a limited basis at one or two suitable centres in each taluka to start with and in pursuance to this policy the total number of such societies stood at 65 at the close of the co-operative year 1939-40. In organising these societies the immediate object kept in view is to provide finance for cultivation and also to arrange for the sale of produce of the agriculturists who are financed by these societies or by agricultural credit societies in their area of operations. The centres chosen for these societies are in most cases minor market-places and command good communications with major markets.

The area of operations of these societies is restricted to a radius of about five miles from their registered office. Thus about five or six societies organised at suitable centres would eventually cover a whole taluka.

The following statement gives the main statistics regarding operations of multi-purpose societies in the Bombay Province in the year 1939-40 and serves to illustrate the working of the new type of societies:

Number of societies	65
Number of members	2,741
	Rs.
Share capital	42,500
Reserve and other funds	12,658
Deposits—	
(*a*) From members	6,584
(*b*) From non-members	17,891

Loans from central banks...	42,225
Working capital	1,27,858
Loan operations—	
(*a*) Crop loans	42,588
(*b*) Loans on security of produce...	1,19,904
(*c*) Intermediate term loans	11,435
(*d*) Loans for domestic and industrial requirements	10,547
Total loans outstanding	70,593
Overdues	9,007
Value of agricultural, domestic and other requirements supplied ...	39,017
Price realised on sale of agricultural produce	26,838
Commission earned	2,393

In his Annual Report for the year 1939-40 the Registrar of Co-operative Societies and Director of Rural Development, Bombay Province, observes that it is premature to express any opinion regarding this experiment for linking up credit with marketing through the agency of multi-purpose societies, although he agrees that some of them have made a promising start.

The multi-purpose societies have three principal needs, *viz.*, (1) adequate godown facilities for storing produce brought to them for sale; (2) subsidies to meet the cost of management, particularly in the initial stages when the turnover is not likely to be large; and (3) provision for efficient and well-trained staff to serve as secretaries. The Government of Bombay has recently issued orders under which long-term loans for the purpose of constructing godowns at 4% interest can be granted. The lowering of the rate of interest to 3% is, however, desirable.

Government has also undertaken to pay a subsidy up to Rs. 150/- a year to each multi-purpose society for the first three years to enable it to maintain suitable staff. As previously pointed out, arrangements have been made for supplying trained rural assistants for appointment as secretaries to multi-purpose societies.

We welcome these measures of State aid to multi-purpose societies having regard to their rich potentialities and intimate bearing on rural welfare.

Concluding Observations.

In a country where the vast masses are poor there can be no better method of doing business than co-operation, and although the co-operative movement has not lived up to earlier expectations and has at times given the impression that it has failed, co-operators must not lose their faith in the benign principle of co-operation, which has fruitful applications to a wide range of problems of our rural economy. In order that it should be effectively applied in this sphere it is essential to re-organise and re-vitalise the rural credit society so that within a reasonable time it may be transformed into a full-fledged multi-purpose society or village bank, which should be able to make its legitimate contribution to rural regeneration. Experience in the past, however, clearly shows that we should not aim too high and lose sight of the realities of the case. It is desirable to hasten cautiously and build up the new co-operative fabric on firm foundations, making sure of the advance at each step. One implication of this is that the limits of multi-purpose societies should not be unduly stretched. We agree with the Registrar of Co-operative Societies, U. P., that the idea of turning co-operative societies, into a sort of village republics is too ambitious and full of risks. Then again, the muli-purpose societies cannot at one stroke replace the primary rural credit societies. They should rather be regarded as a further stage of evolution of agriculural credit co-operation. Amateurish enthusiasm for new phrases and ideas is as fatal to success as undue conservatism and refusal to break new paths.

Finally, there should be a proper sense of proportion regarding the potentialities of the new experiment. Even the most successful multi-purpose society will not be able to create a new heaven and a new earth for its members so long as the entire economy of the country is not placed on a stable footing.

SUMMARY

In this Paper an attempt has been made to discuss the various issues raised by the plan of multi-purpose society. The urgent need for the re-orientation of the co-operative movement with a view to removing its defects and strengthening it has been stressed with special reference to the primary village co-operative credit society. The case for widening its economic functions has been analysed and the need for linking up credit with supply and sale emphasised. The proposal of the Reserve Bank of India to start multi-purpose societies or village banks is unfolded and the relative merits and demerits of the multi-purpose society and the single-purpose society respectively are assessed.

The multi-purpose society may be able to ensure greater interest and sustained loyalty of its members, save them from the evils of cash economy, secure more economical and efficient management, stimulate interest in subsidiary industries and play a useful rôle in rural uplift work. On the other hand, the new type of society may have to reckon with the dearth of business ability and capital, risk the possibility of failure should one of the lines of its business go wrong, and submit to the disadvantages of a larger area of operations. The need for imparting co-operative education to the members and office-bearers of the society and for supplying it with trained workers on the one hand, and avoiding speculative business on the other, is indicated. This is followed by a discussion of the form of liability of the multi-purpose society and of the case for substitution of limited for unlimited liability.

It is pointed out that the plan of multi-purpose society is meeting with increasing approval and is being introduced in several Provinces and some Indian States. It is premature, however, to draw any definite conclusions from the new experiment, which deserves to be pursued within limits dictated by considerations of safety and prudence.

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THE CAPITAL RESOURCES OF AGRICULTURAL CO-OPERATIVE SOCIETIES IN MYSORE

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The brightest spot in the cooperative movement in the Mysore State is the non-agricultural side of it and in particular the urban credit societies and the urban consumers' stores. The apparently satisfactory and comforting conclusions drawn about the progress of the movement are based upon the total figures relating to all types of societies. On analysis it will be found that the non-agricultural societies account for the strength and resources of the movement far higher in proportion to their number. The progress of the non-agricultural societies as compared with that of the agricultural societies is indicated below:

Progress of Co-operative Societies in Mysore.

Year		Number of Societies.		Membership (in ooo's)		Working Capital (in lakhs of Rupees)	
		Agricul.	Non-Agri.	Agricul.	Non-Agri.	Agricul.	Non-Agri.
1911-12	...	129	77	3·6	9·3	0·98	4·59
1916-17	...	812	144	45·0	27·9	22·70	20·87
1921-22	...	1233	270	51·4	43·2	25·12	37·16
1926-27	...	1416	315	53·7	42·8	30·11	51·12
1931-32	...	1744	423	71·8	67·8	53·09	87·48
1936-37	...	1417	434	62·2	80·9	55·01	116·85
1939-40	...	1430	455	66·6	74·6	63·16	156·67

In assessing the progress of the movement, however, one should not lose sight of the fact that in Mysore also as in British India cooperation had its origin in the necessity to strengthen the economic condition of the rural population. In fact, the problem of improving the condition of rural economics engaged the attention of the Mysore Government as early as 1890 when the system of *takavi* loans was introduced. This was followed in 1894 by a more comprehensive state-aided scheme of Agricultural Banks, which were associations of agriculturists "formed on strictly cooperative principles." Thus in a sense these Agricultural Banks anticipated the cooperative movement of the following decade. The scheme, however, was a failure, and even by 1900 it was apparent that the objective aimed at was nowhere within reach. One of the principal causes of the failure was the very liberal terms offered by the Government by way of help and the dependence of these institutions upon Government funds without any incentive to make any efforts of their own to raise local capital. As against a sum of Rs. 15 lakhs advanced by the State, the deposits collected by the institutions themselves did at no time exceed Rs. 15 thousand.

The failure of this scheme, however, served as a warning at the time of the formation and working of cooperative societies. The co-operative movement was inaugurated in Mysore in 1905 by the enactment of the law for facilitating the organisation of cooperative societies, "intended to serve the purpose of amelioration of agriculturists by inculcating in them the spirit of self-help, self-respect, mutual aid and co-operation, and making the co-operative spirit permeate every activity of their life." The law in Mysore was more comprehensive in its scope than the Indian Co-operative Credit Societies Act of 1904, in that it provided for the formation of not merely credit societies as in British India but also of other kinds of societies. It was hoped thereby to develop co-operative organisations of different kinds to reform and improve the life of the rural population.

But in the development of the movement in the rural areas no special feature distinguishes Mysore, so far as the

types of societies are concerned. As in British India, agricultural societies predominate in number and more than 90% of these happen to be ordinary credit scoieties. With the exception of 75, all of them are based upon unlimited liability. With agriculture as the basic industry of the State and a rural population of 84% and the conditions and problems of rural economy being not very different from those of the neighbouring British provinces of Madras and Bombay there is nothing surprising that the movement in Mysore has been largely influenced by her neighbours as regards the general lines of development.

For the realisation of the co-operative ideal of *better farming* and *better living* and the permeation of the co-operative spirit based upon self-help, self-respect and mutual aid, the credit society is no insignificant agency. It is not difficult to comprehend the enlarging of the activities of the village credit co-operatives by making them discharge all the functions which are contemplated by the bye-laws in some of them, which include the supply of manure, seeds, improved implements and other necessary equipment required for agriculture by joint purchase on the indent system, and also the sale of produce of members. In fact there are a few agricultural credit societies in Mysore also which are functioning in this manner.

Even in the case of the purely credit societies there is great scope for the inculcation of the co-operative spirit. In the development of the capital resources on proper lines and the wise and judicious loan operations, the habits of thrift and providence are fostered. The success of a co-operative credit society is judged not merely by the total amount of resources and transactions but also by the composition of the resources and the methods of conducting the transactions. The development of local resources out of the small savings of thrifty members was the ideal to be aimed at. The theory that the members' own savings should provide a very large, if not the greater part, of the working capital of the village co-operative credit society is based upon the successful realisation of the ideal elsewhere.

In Mysore also the main sources of the working capital of the agricultural co-operative societies happen to be four

viz., (1) Share capital; (2) Reserve and other Funds; (3) Deposits from members as well as non-members; and 4) Loans from Central Banks and the State. Details of the capital resources for the past thirty years are analysed in the accompanying statement.

WORKING CAPITAL OF AGRICULTURAL COOPERATIVE SOCIETIES IN MYSORE

Amounts in lakhs of Rupees

Year.	Owned									Borrowed.								Total Working Capital of Agricultural Societies.	Total Working Capital of all kinds of Societies.	P.C. of Wor. Cap. of Agri. Stys to total Wor. Cap. of all kinds of societies.
						Deposits				Loans.										
						Amount				From Central Banks		From Government								
	Share Amount	Reserve fund.	Miscellaneous.	Total	P. C. of Working Capital	Members.	Non-Members.	Total	P. C. of Working Capital.	Amount	P. C. of Wor. Cap.	Amount	P. C. of Wor. Cap.	Total Amount of Loans.	P. C. of Total Working Cap.	Total Amount of Borrowed Capital.	P. C. of Working Capital.			
1911-12	0·51	0·01	..	0·52	53·1	0·04	0·02	0·06	6·1	0·39	39·8	0·01	1·0	0·40	40·8	0·46	46·9	0·98	6·52	15·0
1912-13	1·56	0·03	...	1·59	53·9	0·06	0·04	0·10	3·4	1·24	42·0	0·02	0·7	1·26	42·7	1·36	46·1	2·95	12·89	23·0
1913-14	3·92	0·12	...	4·04	58·9	0·17	0·16	0·33	4·8	2·48	36·2	0·01	0·1	2·49	36·3	2·82	41·1	6·86	21·47	32·0
1914-15	5·84	0·22	...	6·06	57·7	0·42	0·22	0·64	6·1	3·78	36·0	0·02	0·2	3·80	36·2	4·44	42·3	10·50	30·86	34·0
1915-16	7·86	0·48	...	8·34	49·8	0·77	0·38	1·15	6·9	6·88	41·2	0·35	2·1	7·23	43·3	8·38	50·2	16·72	44·22	37·8
1916-17	10·08	0·84	...	10·92	48·1	1·07	0·81	1·87	8·2	9·55	42·1	0·36	1·6	9·91	47·3	11·78	51·9	22·70	57·64	39·3
1917-18	11·39	1·33	...	12·72	51·3	1·32	0·96	2·28	9·2	9·42	37·9	0·39	1·6	9·81	39·5	12·09	48·7	24·81	65·05	38·1
1918-19	10·87	1·52	...	12·39	52·0	1·58	0·95	2·53	10·6	8·64	36·3	0·27	1·1	8·91	37·4	11·44	48·0	23·83	70·98	33·5
1919-20	10·75	1·92	...	12·67	53·2	1·65	0·99	2·64	11·1	8·46	35·5	0·06	0·3	8·52	35·7	11·16	46·8	23·83	78·00	30·5
1920-21	10·95	2·27	...	13·22	55·2	1·62	1·07	2·69	11·2	8·01	33·5	0·02	0·1	8·03	33·6	10·72	44·8	23·94	78·20	30·6

1921-22	11·14	2·70	...	13·84	55·1	1·62	0·99	2·61	10·4	8·65	34·4	0·02	0·1	8·67	34·5	11·28	44·9	25·12	81·97	30·6
1922-23	11·49	3·36	...	14·85	55·2	2·48	3·58	6·06	22·5	5·86	21·8	0·12	0·5	5·98	22·3	12·04	44·8	26·89	84·09	32·0
1923-24	10·05	3·82	...	13·87	56·4	1·57	1·19	2·76	11·2	7·95	32·3	0·03	0·1	7·98	32·4	10·74	43·6	24·61	87·45	28·1
1924-25	9·75	4·72	...	14·47	55·9	1·73	0·97	2·70	10·4	8·62	33·3	0·10	0·4	8·72	33·7	11·42	44·1	25·89	92·22	28·0
1925-26	10·04	5·43	...	15·47	56·1	1·49	0·84	2·33	8·5	9·02	32·7	0·73	2·7	9·75	35·4	12·02	43·9	27·55	98·66	28·0
1926-27	10·58	5·91	...	16·49	54·8	1·82	1·14	2·96	9·8	10·33	34·4	0·30	1·0	10·66	35·4	13·62	45·2	30·11	112·39	26·7
1927-28	11·24	7·10	...	18·34	53·1	2·20	1·88	4·08	11·8	11·79	34·1	0·36	1·0	12·15	35·1	16·23	46·9	34·57	131·03	26·3
1928-29	12·06	7·19	...	19·25	48·9	1·56	2·30	4·86	12·4	13·49	34·3	1·74	4·4	15·23	38·7	20·09	51·1	39·34	152·37	26·0
1929-30	12·62	7·70	...	20·32	44·2	2·40	1·54	3·94	8·6	19·97	43·5	1·68	3·7	21·65	47·2	25·59	55·8	45·91	169·25	27·1
1930-31	13·28	8·21	...	21·49	42·6	2·38	2·70	5·08	10·1	22·41	44·5	1·42	2·8	23·83	47·3	28·91	57·4	50·40	189·32	26·6
1931-32	13·53	9·11	...	22·64	42·6	3·68	1·93	5·61	10·6	23·48	44·2	1·36	2·6	24·84	46·8	30·45	57·4	53·09	203·78	26·1
1932-33	13·21	10·01	...	23·22	42·7	2·60	2·41	5·01	9·2	24·87	45·8	1·24	2·3	26·11	48·1	31·12	57·3	54·34	223·10	24·3
1933-34	12·44	11·06	...	23·50	43·4	2·55	2·81	5·36	9·9	23·60	43·5	1·75	3·2	25·35	46·7	30·71	56·6	54·21	217·60	24·9
1934-35	11·79	11·82	4·25	27·86	49·2	2·43	2·76	5 19	9·2	22·34	39·5	1·16	2·1	23·50	41·6	28·69	50·8	56·55	231·05	24·5
1935-36	11·33	12·29	2·33	25·95	47·7	2·13	2·52	4·65	8·5	22·93	22·1	0·92	1·7	23·85	43·8	28·50	52·3	54·45	236·05	23·0
1936-37	11·35	12·24	2·70	26·29	47·8	1·46	3·02	4·48	8·1	23·33	42·4	0·92	1·7	24·25	44·1	28·73	52·2	55·01	240·29	22·9
1937-38	11·87	12·55	2·34	26·76	45·5	2·37	3·27	5·64	9·6	25·28	43·3	1·09	1·8	26·37	44·9	32·01	54·5	58·78	258·48	22·8
1938-39	12·03	12·69	3·04	27·76	45·2	2·39	3·13	5·52	9·0	27·21	41·4	0·80	1·4	28·01	45·8	33·53	54·8	61·29	263·11	23·3
1939-40	11·87	13·17	3·02	28·06	44·5	2·14	4·15	6·29	9·9	28·18	44·6	0·63	1·0	28·81	45·6	35·10	55·5	63·16	264·19	23·9

The share system in the unlimited liability agricultural credit societies happens to be a notable feature in Mysore right from the inception of the movement. "The share capital in a society of unlimited liability represents not the stake of the member in the society but such portion of his unlimited liability paid up as should give cover for any deficit in assets."[1] In some other parts of India, the share system in rural credit societies has proceeded by the method of trial and error.[2] Mysore deliberately adopted the system as the accumulation of the share capital by enabling the members to pay from out of their savings in small convenient instalments, besides stimulating thrift among the members, would enhance the credit of the societies also. The shares are of small value and within the reach of the small man as well. The danger of the dividend-hunting spirit was guarded against by fixing the limit of shareholding as also the maximum rate of dividend payable. With such limitations, the system did not materially differ in practice from the compulsory deposit system introduced in many parts of British India. In the beginning the share capital provided more than 50% of the working capial but the proportion has gradually declined owing to the increase in the other sources of capital.

Share Capital of Agricultural Societies.
(Amount in lakhs of Rupees)

Year	Amount of Total Working Capital.	Share Amount.	P. C. of Total Working Capital.
1911-12	0·98	0·51	52·0
1916-17	22·70	10·08	44·4
1921-22	25·12	11·14	44·4
1926-27	30·11	10·58	35·1
1931-32	53·09	13·53	25·5
1936-37	55·01	11·35	20·6
1939-40	63·16	11·87	18·8

[1] *Report of the Committee on Co-operation in Mysore*, 1936, p. 81.

[2] *E.g.*, Bengal. See Niyogi, *The Co-operative Movement in Bengal*, p. 18.

In spite of the declining proportion, when compared with the other parts of India, Mysore stands high, the only other parts which have a higher percentage of share capital being the N.-W. F. P., Kashmir and Travancore.[3] However, the almost stagnant position of the share amount cannot but be considered as a weakening of the system. While other parts of India are adopting the share system Mysore should not allow the healthy practice to weaken any more.

In practice the influence of the share system in Mysore as an effective promoter of the habits of thrift is somewhat nullified by the system of deducting the full amount of the shares from out of the loans advanced. Besides, the habit of borrowing on the security of the paid-up share capital, which will later be adjusted towards the loan is not conducive to the maintenance of the credit stability of the society. The Department of Co-operation has, however, been striving hard to fight these evils but they seem to persist.

The Reserve Fund which constitutes the other important part of the owned capital may be held to represent the collective savings of the members. The amount built up has grown steadily and in 1939-40 constituted 20·8% of the total working capital. There is no reason to doubt the face value of this amount as in Mysore the profits of the primary societies have always been calculated on the gains actually realised and not upon the estimates of assets and liabilities as for example in Bengal.[4] According to the Maclagan Committee, the object of a society should be to accumulate a Reserve Fund until it obtains a capital of its own sufficient to meet all its needs and thus becomes independent of outside assistance. In Mysore only a portion of the Reserve Fund is utilised as working capital. The Department has always advised the separate investment of the Reserve Fund in a liquid form as far as possible. It is estimated that not more than 40% of the Reserve Fund is used as working capital, though the Committee on Co-opera-

[3] For the year 1937-38, the percentages were as follows:—Travancore 53; Kashmir 31·3; N.-W. F. P. 22; and Mysore 21·5.

[4] Niyogi, *op. cit.*, p. 21.

tion of 1936, recommended that "in societies of unlimited liability, the bulk if not the whole of the Reserve Fund may be used in their ordinary business as working 'capital.'"[5]

Deposits from members and non-members represent local sources of borrowed capital. The deposits together with the owned capital of the societies are taken as indicating the habits of thrift and savings of the agriculturists. The agriculturists as a class have little surplus and the few well-to-do among them finance their well-to-do neighbours instead of resorting to the co-operative or other investment agencies. It is therefore little surprising that the deposits are low. In Mysore, in the rural areas there are the P. O. savings banks as in British India. In addition every Taluk Treasury does savings bank work and a portion of the available rural savings is diverted to these.

The average of the past ten years of the percentage of deposits to total working capital comes to 9·4 which compares favourably with the percentage in Madras of 5·5 for the year 1938-39.[6] In Mysore, the co-operative pioneers emphasised the ideal that one of the main functions of the co-operative credit societies was to gather together the small and scattered savings of the numerous small producers which have the potential strength of amassing large amounts of working capital. Besides in unlimited liability societies, thrift plays a very important part; "for, unlimited liability of thriftless persons was something which was worth nothing. The golden sunshine of thrift and co-operation wherever it casts its rays, unveils and brings to view in plenty, unlooked-for virtues which may have long lain hidden like flowers shrouded by the night."[7]

The deposits of members together with the share capital, representing the savings of the members constituted Rs. 14·42 lakhs in 1938-39. This was 23·5% of the working capital. The corresponding figure for Madras was

[5] Niyogi p. 114.

[6] *Committee on Co-operation in Madras*, 1939-40, p. 292.

[7] Presidential Address: First Mysore Provincial Co-operative Conference, 1911.

13%.[8] The average per member of the total of the share and members' deposit came to Rs. 21 in Mysore for the year 1939-40. As between deposits of members and of non-members, it is observed that the former exceeded the latter up to the year 1932-33, since which year the deposits from non-members have exceeded those from members. In 1939-40, the deposits from members happened to be about 50% of the non-members' deposits. This preponderance of non-members' deposits in Mysore is confined to the group of agricultural societies only for the non-agricultural group of societies has throughout maintained a higher proportion of members' deposits. The comparatively higher rates of interest offered on deposits by agricultural societies may have been responsible to some extent for this increase. It is also surmised that during the period of depression the local co-operative societies have provided the local money-lenders with a safe and attractive avenue for the investment of their resources at a time when they had to considerably restrict their advances. May not a situation like this be turned to advantage by enlisting the money-lenders also as members and disprove the charge levelled against the village credit societies that they are little more than borrowing groups!

Rural societies are expected to raise locally what capital they ordinarily require, depending upon the Central Banks to supplement the local supply in case of deficiency. In Mysore the amount of loans from the Central Banks has increased in recent years. The dependence on an external agency for the supply of working capital is deprecated as it is not congenial to the growth of the co-operative spirit. It is bound to lead also to constant interference in the internal affairs of the societies. In Mysore also the Central Banks during the period of the boom attracted heavy deposits and due to the plethora of funds had to adopt too liberal a policy of lending. The prevailing boom warranted optimism. The loans advanced by the Central Banks, to the agricultural societies while keeping pace with the increase in their deposits happened to be out of all proportion

[8] *Report of Madras Co-operative Committee*, 1939-40, p. 292.

when compared with the increase in the number and the membership of agricultural societies, as indicated in the following statement:—

Number and Membership of Agricultural Societies and the loans borrowed by Agricultural Societies from Central banks.

Year.	Deposits of Central Banks		Agricultural Societies.				Loans from Central Banks.	
			No. of Societies.		Membership.			
	Amount in lakhs of Rs.	Index Nos.	Number.	Index Nos.	Nos. in '000.	Index Nos.	Amount in lakhs of Rs.	Index Nos.
1925-26	17·05	100	1278	100	51·2	100	9·02	100
1927-28	28·72	168	1502	117	57·7	112	11·79	131
1929-30	37·26	218	1686	132	65·9	129	19·97	221
1931-32	51·07	300	1744	136	71·8	140	23·48	260
1932-33	56·63	332	1723	135	71·1	139	24·87	275
1934-35	52·77	310	1546	121	66·2	130	22·34	248
1936-37	54·53	320	1417	111	62·2	121	23·33	259

Besides, in Mysore loans were advanced for long periods for land improvement and debt redemption. In the words of V. L. Mehta, "Cooperative finance in Mysore has become more or less mortgage credit on long-term basis and personal short-term credit has receded to the background."[9] The liberal advances for long periods during the period of boom were not a little responsible for the rapid increase in overdues following the crash in agricultural prices.

[9] Quoted by the Registrar of C. S. in Mysore in his *Administration Report for 1928-29*, p. 9.

Percentage of Overdues of the Mysore Provincial Co-operative Apex Bank to Total Loans Outstanding under All Heads.

Year	Percentage of overdues.
1926-27	21·0
1929-30	11·7
1931-32	22·7
1936-37	74·6
1939-40	77·1

The effect of such liberal loan policy was to check the development of local resources by the agricultural societies which became more and more dependent upon the Central Banks for financial assistance.

Loans from the Government directly to primary agricultural societies happen to be throughout the working of the movement small in amount, though constituting comparatively high percentage to the working capital—the average for the past ten years being 2% as against the Madras percentage of 0·6% for the year 1938-39, and the All-India average of 0·2% for the year 1937-38.

The capital resources position of the agricultural societies compared with those of the non-agricultural and the central societies is indicated in the following table:—

Working Capital of Co-operative Societies in Mysore (Amount in lakhs of rupees)

Year	Total Working Capital of all kinds of Societies.	Agricultural Societies.		Non-Agricultural Societies.		Central Societies	
		Working Capital.	P. C. of Total Working Capital.	Working Capital.	P. C. of total Working Capital.	Working Capital.	P. C. of Total Working Capital.
1911-12	6·52	0·98	15·0	4·59	70·4	0·95	14·6
1916-17	57·64	22·70	39·3	20·87	36·2	14·07	24·5
1921-22	81·97	25·12	30·6	37·16	45·3	19·69	24·1
1926-27	112·39	30·11	26·7	51·12	45·5	31·16	27·8
1931-32	203·78	53·09	26·1	87·48	42·9	63·21	31·0
1936-37	240·29	55·01	22·9	116·85	48·6	68·43	28·5
1939-40	264·19	63·16	23·9	156·69	59·3	44·34	16·8

Working Capital of Agricultural Societies per Society and per Member.

Year	Number of Societies.	Working Capital per Society	Number of Members.	Working Capital per Member.
		Rs.		Rs.
1911-12	129	760	3,679	27
1916-17	812	2,800	45,021	50
1921-22	1,233	2,040	51,377	50
1926-27	1,416	2,130	53,707	56
1931-32	1,744	3,040	71,790	74
1936-37	1,417	3,880	62,229	88
1939-40	1,430	4,380	66,560	95

The Cooperative Committee of 1923 assessed the minimum requirements of a ryot in Mysore for his current agricultural operations at about Rs. 100 and judged from this standard the agricultural societies may appear to have adequate resources at their command. But short-term loans for current agricultural needs happen to be not common in Mysore. Unlimited rural primary societies had hitherto undertaken mostly land mortgage banking of a kind. With the advent of the regular Land Mortgage Banks for specialisation of the functions connected with the tackling of the problem of rural indebtedness, the agricultural credit societies are now free to confine their attention to short and medium term loans.

As in the rest of Indian so also in Mysore the period of depression following the period of the boom has subjected the agricultural societies to a severe strain. Conciliation, consolidation and rectification,—the watchwords in the task of reconstruction,—are popular here as well. In this reconstruction Mysore has a distinct advantage. The foundations of the movement happen to be well laid. So far as the development of the capital resources is concerned the agricultural societies have been in the beginning well served by the pioneeers who seem to have successfully practised the cooperative ideals. The future planning for reconstruction

should, therefore, not neglect to emphasise these distinct aspects of the Mysore movement.

SUMMARY

The co-operative movement in Mysore was initiated with the main object of strengthening the economic conditions of agriculturists. But the outstading feature in the development of the movement has been the non-agricultural societies. The strength and the resources of the agricultural societies happen to be comparatively very much less in proportion to their numbers.

The Mysore Co-operative Societies Act of 1905 was more comprehensive in its scope than the Indian Co-operative Credit Societies Act of 1904: but no special feature distinguishes Mysore so far as the types of societies in rural areas are concerned. The development has followed the general lines of growth in the neighbouring provinces of Madras and Bombay. Unlimited liability co-operative credit societies predominate.

The development of the capital resources of the agricultural societies is analysed and reviewed from the point of view of the realisation of the co-operative ideals. It is found that the share system happens to be a distinct feature of unlimited liability credit societies. The local capital resources were being tapped in the beginning to a greater extent than at present. Subsequent to the boom period the agricultural societies are dependent to a greater extent upon the Central Banks for financial assistance. The adequacy or otherwise of the capital resources from the point of view of the requirements of the members cannot be discerned clearly in view of the fact that in Mysore short-term loans for current agricultural operations happened to have receded to the background in preference to long-term mortgage loans for debt redemption and other purposes. In the reconstruction of the movement which has been proceeding it is suggested that distinct emphasis should be laid on the Mysore features so far as the development of the capital resources is concerned.

MULTI-PURPOSE SOCIETY

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It is usual to draw a contrast between the colourful picture of what Co-operation would do for rural betterment in India and the sombre sketch of the failure of co-operative societies in the several Provinces to effect any material change in the conditions of village life. Performance has fallen short of promise. As many as 25,108 or nearly 25% of the societies have been put into liquidation since the beginning of the movement and nearly 30% of the societies have been declared unfit. That is to say, more than half the number of societies have been either cancelled or are on the way to liquidation.

For the appalling mortality among our societies we have to seek an explanation not in the Co-operative Movement itself but in the manner in which it is worked in our country. Apart from the indecent haste in which the societies were brought into being, we have to point out that they are pre-occupied with the provision of immediate relief to the agriculturist. Debt redemption and cheap credit practically exhaust the whole universe of their activity. The fact that these are only palliatives, or at best, aids to rural welfare and the fact that the real business of the Co-operative Movement is nothing less than rural reconstruction in all its aspects have yet to be realized. The co-operative society should take the whole range of village life and activity within its orbit and in order to achieve complete success it should develop into a multi-purpose society. Credit is only one of the many needs of the farmer and to him agriculture is not merely a business but his whole life.

In the last analysis the agriculturist's problem is two-fold, namely, economic and social. On the economic side we have to grapple with a long catalogue of disabilities,

e.g., primitive methods of cultivation, uneconomic holdings, ruinous rates of interest, malpractices of the middlemen and the money-lender, lack of marketing facilities, high cattle mortality, inadequate water supply, insufficient grazing, poor quality of livestock, decay and disappearance of subsidiary occupations and cottage industries. On the social side we have to contend with a formidable host of difficulties created by the caste system, racial sub-divisions, social stratification, extravagant expenditure entailed by rigid custom on religious feasts and on the occasion of births, deaths and marriages. The problem must be attacked from all sides, since all these failings, economic and social, are inter-connected and inter-woven. It is not merely a question of village building but a question of the re-making of the Indian villager. A co-operative society which takes a comprehensive view of the entire range of village conditions and which is composed of the villagers themselves is the fittest instrument to achieve the desired results.

The multi-purpose society may call to its aid the village school and the Village Panchayet. The society may have to put life into these institutions, galvanise them into activity and get them to carry out efficiently their legitimate functions which will serve as a complement to its own work. Too narrow a construction is now put on the scope of the village school. It is supposed to teach the 3 R's to the children and that done its function is said to be fulfilled. We should also urge a Vocational trend and a training in the use of modern tools and implements and machines, although of an elementary character. The villager should become machine-minded and be prepared to adopt simple machinery in order to increase his outturn. Education may even be carried a step further and an attempt made to correct the uneconomic outlook of the people and alter their unscientific ways of living.

The Panchayet has vast potentialities for rural reconstruction. It fosters the habit of working together. It forms the most economical agency for supplying the common wants of the village community. It could look after village sanitation, water supply, roads, tanks, pastures, housing and temples. In short the Panchayet can undertake every kind

of work pertaining to the well-being of the villagers. The principal virtue of the Panchayet lies in the fostering of common action for common good and thereby prepare the ground for the sowing of the co-operative ideas.

If the co-operative society is to be of real use to the village it should take on manifold functions. It should be a multi-purpose society bent on bringing about an improvement in the standard of life of the villagers.

A multi-purpose society should fulfil two essential conditions, namely, in the first place it must comprehend the entire range of economic activity in the village; and in the second place, it must insist on a strict adherence to co-operative principles. These two conditions supplement each other and reinforce each other. It is necessary to work out implications.

The village society should combine the various functions which are independent and which collectively serve the needs of the villagers. It must be a source of credit; it must undertake the marketing of crops; it must act as a store for the purchase of necessities; it must take an active part in popularising better-yielding seed and strain; it must take the initiative in carrying out improvements in the livestock and deadstock of the village; it must also exert its influence in the direction of social uplift and the reduction of ceremonial expenditure.

A society that takes up all aspects of village life will seek to include nearly everyone in the village among its members. Not only the landlord and the cultivator, the patel and the shanbogue but also the weaver, the carpenter, the blacksmith and the chuckler should find a place in the village society. There is of course the danger that a society made up of people not of the same standing or economic importance will favour the strong against the weak. The influential members, for example, will appropriate to themselves all the power and privilege. The obvious reply to it is a combination of the weaker members and their insistence that the society serves them according to their needs and credit-worthiness.

The second condition of co-operative success is that there should be strict adherence to co-operative principles.

The society should take measures to translate these into practice. The village society should be required to raise its own capital. Thrift and mutual help, being the basic ideas of the co-operative movement, the members should supply all the funds necessary for lending. The society should raise share capital and attract deposits. As far as possible the society should be independent of outside sources of credit. In India it is too frequently the practice to draw on the central banks and make little or no attempt to collect the savings, the idle hoards and the spare cash of the village folk. A primary society that borrows from a central bank for its ordinary needs has scarcely fulfilled its co-operative function: it is rather a commission agent than a co-operative bank.

The bank should not only teach itself thrift, self-help and prudence but it should also inculcate these virtues in its members. Much depends on the mode of dealing with members. Our co-operative societies do not seem to realize—or if they do, they do not act upon the knowledge—the fundamental feature of village economy, namely, that the agriculturist receives his income in one lump sum while his labour is spread out over the whole year. Money received all at once puts a temptation in his way and leads very often to thoughtless expenditure. At this crucial point the society should induce him to deposit the fruit of his labour and disburse it to the member according to his legitimate needs throughout the year. Further the society being multi-purpose the necessity to hand over actual cash will be reduced. There is no chance of the loan being misapplied, for he will take it in the shape of goods from the store department of the society. For his current needs the member may be allowed a cash credit on which he can draw from time to time, the society always taking care to supply the goods itself or through a recognized agency. To encourage the method of dealing through cash credit, which is really controlled credit, he should be charged a rate of interest lower than that levied on fixed loans. The member's needs, so far as they are legitimate, should be met promptly by the society, otherwise he will have recourse to the money-lender. Fair dealing, good quality, full measure

and prompt delivery should be the criteria of action. It also follows that the society is both a sale and purchase society in the sense that while it sells to the agriculturist his requirements under grain, fuel, cloth, etc., it buys or markets his crops and the products of his industry. The proceeds of course will be credited to the member's accounts.

A multi-purpose society makes for constant dealings and continuous transactions among the members. A co-operative bank that confines its activity to credit only and meets occasionally to disburse loans or recover dues cannot, in its very nature, forge a bond of union among the members. But a society that combines lending, storing, purchasing and selling is a live institution entering into the lives of the villages at various points and maintaining close contact with them.

The main activities of the multi-purpose society can be grouped under four heads, Improved Farming, Improved Marketing, Improved Business and Improved Living.

Improved Farming is reflected in the yield of crops. The society should make itself responsible for the proper distribution of better manure, better seed and better implements. The society should keep close touch with the Agricultural Department which is the channel through which the resources of agricultural science can be brought to the door of the cultivators. Improving the breed of draught cattle should be the special concern of the society. The individual agriculturist has no appreciation of the cattle problem though cattle form an important part of his equipment. As the breed of the cattle improves both in respect of duration of life and utility on the farm the society may attempt cattle insurance through central organizations. Reservation of proper pasture land, rotation of crops, growing of timber for fuel, consolidation of holdings, construction or repair of village tank and provision of common fencing will all come within the legitimate activity of our multi-purpose society.

Improved marketing is called for by the necessity of procuring the best price for the increased yields which our multi-purpose society is supposed to have brought about. Broadly speaking, there are two types of marketing, namely,

the type in which the produce is sold at the current price ruling in the market and the type in which the produce is held over for better prices. In the former type the society functions largely as a commission agent for the sale of the members' produce. Its merit lies in the fact that unlike the middleman there is no risk of illegal deductions and false measures. The society may make advances to the member up to a certain percentage of the value of his produce, the balance to be paid when the goods are finally sold off. The Cotton Sale Societies of Bombay are carried on on these principles.

In the second type of society, and commonly known as the Godown Society facilities are given for storing the produce and for getting advances on the produce so stored. The produce will be sold when, in the judgment of the society, the best prices are available. The working of such a society presupposes a careful study of price trends, hedging and forward sales, but one could hardly expect so much ability among the villagers.

Better Business is the third item in the task of improving the economic position of the primary producer. Organizing production and providing marketing facilities will, no doubt, go a long way towards the solution of the farmer's problem. He should also be equipped with a by-employment or a subsidiary occupation. Farming, by itself, does not absorb the entire time of the agriculturist, hence the necessity for him to discover trades which will take off his unused time and capacity.

In prescribing subsidiary occupations to the farmer we should beware of suggesting industries, unconnected with agriculture. We should either revive the traditional farming occupations in so far as they can be modernised or devise new pursuits directly related to farming.

A traditional occupation now lost to the rural folk is the processing of crops. Generally speaking, manual labour is distinctly at a disadvantage in factory production. We have to select those types of processing which can still be better done by individuals with such resources as their co-operative society will place at their disposal. Oil seeds, sugar-cane, cashew nuts, rice and raw-cotton, all these can

be processed on the farm. Well-organized central sale societies can even undertake processing of the kind for which machinery is required. By all these methods the primary producer can secure a better price for his product. Selling his crop in an unfinished condition, as he does at present, is to suffer a serious deprivation.

Besides the traditional occupations there is a large line of pursuits well within the reach of the farmer, *e.g.*, dairying, bee-keeping, cattle-breeding and poultry-farming. The sale of milk, ghee, butter, eggs and honey on a co-operative basis will form an important source of additional income.

The chief aim of the comprehensive society or the multi-purpose society that we have outlined is Better Living. The activities discussed so far should lead on to a higher standard of life and to a higher level of culture among the village folk. It is not necessary to start Better Living Societies on the Punjab model but their objects can be incorporated in the kind of society we are visualizing. Apart from those activities which fall strictly within the ambit of a co-operative society it should also undertake uplift, welfare and reconstruction activities such as adult education, medical aid, village improvement works, propaganda against the drink evil, curtailment of expenditure on marriages and religious ceremonies, maintenance of a village library and radio and organization of music parties, dramas and festivals. That we are not asking for too much from our multi-purpose society is shown by the success achieved in Mysore. It is not unusual for societies in that State to meet the cost, if any, of these activities by separate contributions under each head whenever the cost cannot be charged to the funds of the society. The aim always is to bring about an improvement not only in the economic but also in the physical, moral and spiritual condition of the members of the society.

A mere scaling down of debt by legislation here or a redemption of debt by land mortgage banks there, a mere reduction of interest rates here or a provision for repayment in easy instalments there will not bring about the rehabilitation of our rural life. All these measures should go hand in hand with the sustained efforts of the leaders to vivify

the villages with their own spirit and intelligence and energise them with their own enthusiasm and experience. A co-operative society should be multi-purpose in scope and character and it should take for its province the entire range of the economic and social life of the villagers.

REPLANNING OF THE CO-OPERATIVE MOVEMENT IN INDIA

BY

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The co-operative credit movement in India was started to finance the agriculturist in times of need. It were the recurring famines at the close of the 19th century which prompted state action in this direction. The Deccan Agriculturists Relief Act (1879) and the Land Improvement Loans Act (1883) and the Agriculturists Laons Act (1884) which followed in its wake were measures designed to provide money to the agriculturists to tide over the crisis in a year of natural calamity. Even the first act of 1904—the Cooperative Credit Societies Act—was passed after the recommendation of the Famine Committee of 1901. The idea behind all these measures was to provide credit facilities, if and when our agriculturists were faced with some unforeseen catastrophe like the famines or the floods, and from this point of view a banking institution or more appropriately a co-operative bank (which is superior in many respects to an ordinary bank or a money-lender) could meet the situation. If the Indian cultivator needed help only in years of agricultural distress, the cooperative credit institutions could have been able to cope with the situation. But it was not so. The disease was chronic and needed sustained efforts for a comparatively long period.

By the close of the nineteenth century, the Indian agriculturist had practically reached a state of insolvency. He was face to face with a more or less permanent money famine, which through various ways—direct and indirect—was grinding the agriculturist to abject poverty and a posi-

tion of sheer helplessness. The grip of the money-lender, irredeemable debts, high rates of interest, transfer of land, pledging or sale of produce long before the harvest and similar other features typified the agriculturist and his occupation. The co-operative credit movement was started to face this situation. No doubt, where the movement could achieve success the burden of debt was a little relieved and credit facilitated, and in some cases, members of co-operative credit societies could even accumulate small sums to their credit, but the cultivators in general could not be made free from the need of debts which ought to be the real objective of a movement of this nature. The crux of the problem was the inadequacy of the normal income of the cultivators compared to their needs. Thus though the immediate need was a loan, efforts should have been made to increase the net income of the cultivators by all possible means so that further loans may be obviated. Easy and cheap loans did reduce the future burden which would have otherwise grown, and if used for productive enterprises, they did increase even the income of the cultivator but this was not enough. Greater emphasis ought to have been laid on such other activities which would have improved the income of the cultivator immediately and brought home to him the immense possibilities and potentiality of the co-operative movement. This could not be done by pure credit societies and it was soon realised that non-credit co-operative activities were essential. To provide for such activities the Co-operative Societies Act of 1904 was revised in 1912. Though the law had been suitably amended, the attitude and spirit of the workers in the movement did not materially change and co-operative credit remained, and still remains, the main activity of the movement. This is proved by the fact that in 1939, of all agricultural co-operative societies in India, as many as 93,767 were co-operative credit societies and only 11,504 were non-credit societies. A comparison of the working capital, in credit and non-credit societies, is even more glaring. In the United Provinces, in 1937, whereas the working capital for agricultural credit societies was 1,06,63,251 rupees, it was only Rs. 3,98,874 for non-credit societies, or less than 4% of the capital for credit

societies.[1] That this policy of concentrating on credit societies only has failed to achieve the desired end is also stressed in the following extract from the *Report of U. P. Banking Inquiry Committee.*[2]

Reviewing the working of the co-operative societies in the U. P., the report says, "It is sufficient to say here that co-operation in this province compared with other provinces has to a large extent failed . . . .In short, co-operation has not only been unsuccessful but to some extent even positively injurious."

In the absence of proper emphasis and efforts for non-credit co-operative activities, the agricultural co-operative societies are no better than borrowers' societies, for the chief objective then left is to obtain cheap credit through these societies. An analysis of the working capital of the societies can throw more light on this question. Apart from loans, there are two other sources which may show the investment of the members in the society, namely, the share capital and the deposits. The share-capital of a society does not actually show the net contribution of the members towards the society. Instances are not few when share capital is paid out of borrowed money, payment of share capital being obligatory before one gets a right to obtain loans from the society. It is a kind of an entrance fee which must be paid before one can borrow from the society. Deposits therefore show more accurately the exact position of the members *vis-à-vis* the society. In the United Provinces, in 1937, the total working capital for agricultural credit societies was Rs. 105·4 lacs, share capital was 23·8 lacs, owned capital Rs. 38·94 lacs (Reserve plus Share capital) and deposits Rs. 2·45 lacs. In other words, though the share capital accounted for 22·6 p.c. of the working capital, deposits from members were as small as 2·3 p.c. only. The following table which shows the amount of loans and overdues also proves the same thing, though it is difficult to find out from these figures the total amount of the indebtedness of the members.

[1] All-India figures for credit and non-credit societies are not quoted separately.

[2] p. 69.

Loans, Recoveries and Overdues on Individual Members of the Agircultural Co-operative Credit Societies in the U. P.[3]

Year.	No of societies.	No. of members.	Lending made during the year.	Average loan per head.	Repayment during the year.	Average repayment per head.	Overdues at the close of the year.	Average overdues per head.
1	2	3	4	5	6	7	8	9
1931	5010	113441	2256135	20	1829625	16	8247600	73
1932	5046	108274	1716288	16	1908755	18	7838827	72
1933	5083	106014	1938594	18	2143012	20	7517935	71
1934	5100	103615	1950086	19	2067780	20	7398053	71
1935	5475	109304	2352284	22	2459326	23	7247515	66
1936	6009	125716	3159067	25	2798168	22	7564076	60
1937	6432	142383	3251497	22·8	3008579	21	7702316	54

It can be seen that the amount of loan per head has been constantly increasing. Though current loans appear to be more or less fully repaid year after year, it is not known if this repayment necessitated borrowing from other sources. It is not unusual for the members of the society to borrow from their old money-lenders to pay off the instalment of the society just for regularity of payment and renewal of the loan. But for the sudden increase in the number of societies and members during the last few years, the average outstanding loan per head would have been about four times the current loans. This shows the permanent weight of debt on the members of the society. In short, what the cooperative credit movement could so far achieve is a partial substitution of the co-operative society for the money-lender as the creditor of the agriculturist. Yet the only method of bringing about an effective change in the agriculturists'

[3] All-India figures for Agricultural Co-operative Credit Societies are not available.

material conditions is to organise cooperative institutions. What is really necessary is the shifting of emphasis from credit side to non-credit side. Systematic efforts should be made towards increasing the agriculturists' income and then banking societies should follow to keep his extra savings in the form of deposits. Provision for easy and cheap loans is harmful as it may lessen the urge to effort which would otherwise have been made to earn a little more. It may be argued that even non-credit activities would need financial assistance and for that reason credit societies would be necessary. Such questions crop up because we at once begin to think of large scale operations which have unduly attracted our attention. The village society should not, at any rate in the beginning, think of big things. A small beginning very cautiously made and carefully conducted is likely to prove more useful and effective than bigger things attempted without solid foundation. This wrong attitude of looking at things from the quantitative rather than the qualitative aspect has also been one of the important causes of the failure of the cooperative movement. Even in the case of co-operative credit societies more attention was paid to a rapid increase in the number of societies and members rather than to the quality of work accomplished. Cases are not wanting where unsuccessful societies are allowed to drag on simply to keep the numbers high. The statutory report issued by the Reserve Bank of India in 1937 pointed out that out of 78,253 agricultural societies in 1934-35, about one third were classified as D and E, which means that they were not working properly or were on the verge of liquidation. The following table shows the extent of the waste of effort and money due to hasty expansion.[4]

[4] Reserve Bank of India, Agricultural Credit Department, Bulletin No. 2, p. 39.

Province	Number of primary societies in 1934.	Societies put into liquidation since the beginning of the movement.	Percentage of column 3 to total number of primary societies. (columns 2 & 3)	Percentage of unfit societies (D & E class) total to the number of societies. (column 2)
1	2	3	4	5
Bengal	19,890	1,991	9	22·3
Punjab	21,276	3,903	15	13·5
Bihar & Orissa	8,789	2,404	21	21·1
Madras	13,211	752	22	13·3
Bombay	5,675	1,737	23	11
U. P.	5,970	3,690	38	72
Central Provinces	3,847	3,633	49	31
Burma	1,460	3,998	73	47·3
	80,118	25,108	24	28·9

The cases of the United Provinces, the Central Provinces and Burma need special attention where the percentages of liquidation and unfit societies are alarmingly high. This proves clearly a policy of quantitative expansion in utter disregard of quality. This policy of rapid expansion has been largely responsible for the poor show which such societies can put up. Their early failures have shaken the confidence of the masses in the very principles and methods of co-operation. Lack of public enthusiasm can also be attributed to the above tendency. It is therefore in the interest of the movement to have a humble but sound beginning. What is now needed is intensive work and consolidation and not expansion. At present, the movement has assumed the shape of something imposed by an outside official agency, and not as one emanating from the beneficiaries themselves. The success of this movement depends on the degree of initiative and interest taken by the members themselves,

The best way, under the circumstances, would be to cry a halt and not to introduce new forms of co-operative activities or to try to expand the present credit co-operation. An attempt should be made to regulate and organise on co-operative lines the existing activities of the cultivators and there too to own only the few simple functions. Even in these few simple duties special care should be taken to organise in such a manner that the agriculturist can easily notice and understand the advantages of co-operative action. He should be able to find out the difference in working on his traditional lines and the co-operative method. Marketing of agricultural produce would be a very important activity and its effects can be immediately realised. Co-operative societies should take over the produce of the members and should arrange for its disposal. In the beginning full benefits may not be realised due to absence of proper grading and storage facilities. Even then, (leaving the benefits of storage and grading), economies of transport, effects of uniform distribution of sales on different dates and in various marts, elimination of middleman's high share in profits and check over fraudulent practices of weighmen and sales agents of the dealers in cities, would more than compensate the effort needed for the task and would immediately prove in rupees, annas and pies the advantage of co-operative action. The same method can then be applied towards other activities such as purchases of seeds, manures, implements and even articles of every day use. A part of the extra profits or savings may be deposited in the credit section of the society which can in due course help in avoiding loans from the money-lenders or even from the society. This plan has the added advantage of keeping the cultivator in daily touch with his society and is not likely to antagonise the money-lender from the very beginning. Instead of substituting the society for the money-lender, the process will be to do away with the necessity for a loan slowly but steadily as the income of the cultivator increases.

A similar suggestion was made by the United Provinces Agricultural Debt Relief Committee when they proposed that the co-operative societies should take over the debt (possibly the conciliated amount of debt) of the members

and should be responsible for its repayment to the creditors. As against this, the entire produce of the land was to be mortgaged with the society which was to arrange for its sale. The expected additional income resulting from co-operative marketing was to go towards wiping off of the debts of the members to the society. The idea was to get this money from the cultivators gradually out of their additional income. Thus the outstanding debts were to be repaid without causing strain on the present income of the agriculturist. The Congress Ministry of the United Provinces proposed a rehabilitation of the co-operative movement through the organisation of Multi-purposes co-operative societies. Co-operative schemes revolving round important non-credit activities have been tried in Burma recently and the results have been very encouraging. A replanning of the co-operative movement with its main emphasis on non-credit co-operative activities seems to be necessary for the healthy growth and survival of the movement as a living force in the country.

RESUSCITATION OF RURAL CREDIT SOCIETIES IN MADRAS

BY

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1.

The subject of Rural Co-operation in India has, in recent years, acquired a fresh importance. Before the measures recommended by the Townsend Committee (1927) could bear fruit, the Co-operative Movement was overtaken by the Economic Depression. The precipitous fall in the prices of agricultural produce and the resultant reduction in the repaying capacity of the cultivators adversely affected the financial stability of the movement. The gradual extension of the non-credit aspects of the movement such as co-operative Sale and Marketing has raised new problems demanding satisfactory solution. Moreover, the agricultural Credit Department of the Reserve Bank of India has been advocating in a series of Bulletins a radical reorganisation of the co-operative structure. The passing of the Madras Agriculturists' Relief Act, 1938 made it difficult for the agricultural population to obtain credit from private money-lenders. "The Act has also necessitated the consolidation and strengthening of the co-operative financing system and its reorganisation."[1] The introduction of Prohibition in four districts in the province and the attempt of co-operators to pool together and convert the small savings of the reformed ryots into productive capital and the growing enthusiasm for village reconstruction have stimulated popular interest in some of the problems of rural co-operation. The Report of the Vijaya Raghavacharya Committee on Co-operation in Madras, 1939-40 which is a unique contribution to the literature on the subject contains many suggestions for

[1] *Press Communique of the Government of Madras*, 16th November, 1938.

giving a new orientation to the movement in order to expand and develop the economic life of the province., "In every province reorganisation of the Co-operative movement has become a pressing problem. This is, therefore, a most opportune moment for considering new methods of work and exploring fresh avenues for increasing the usefulness of the movement."[2]

None can gainsay that the outstanding feature of Indian rural economy is the appalling poverty of the agricultural population. The uneconomic character of the agricultural industry coupled with deplorable inadequacy of subsidiary occupations to supplement the slender income of the cultivator and his consequent crushing and chronic indebtedness have been mainly responsible for the economic backwardness of the rural population. The Madras Provincial Banking Enquiry Committee considered that the total debt of the province was in the neighbourhood of Rs. 150 crores in 1930; and the average debt for the presidency was worked out at Rs. 19 per rupee of assessment.[3] The World Economic Depression and the catastrophic drop in agricultural prices made the lot of the farmers worse; and by 1934, the total debt of the province had swollen to about Rs. 200/- crores as estimated by Dr. P. J. Thomas. This colossal burden of debt has been a cause as well as a result of poverty "the pervading presence of which cannot escape notice."

The rôle of co-operation and its beneficent potentialities in any attempt towards the economic regeneration of the masses cannot be overemphasized. The co-operative method which is by no means alien to our indigenous social and economic institutions has a special significance for the people of our country. A cautious and far-sighted application of co-operative principles to the various economic activities of the rural folk will improve the material and moral condition of the villagers by raising their purchasing power and general standard of life.

[2] Agricultural Credit Department of the Reserve Bank of India. *Bulletin No.* 1, p. 29.

[3] *Report of the Madras Provincial Banking Enquiry Committee*. Vol. I, p. 76.

II

In Madras, as in other provinces Agricultural Credit Societies are by far the most widespread type of co-operative organisation. Out of 11,910 agricultural societies of all types on 30th June 1940, there were 11,041 primary credit societies (unlimited liability) in the province. As they constitute the foundation of the pyramidal co-operative structure, the vitality of the movement depends upon the stability and soundness of these basic units. The following table shows their position for a period of 20 years:

GRAPH SHOWING:—

1. Number of Societies.
2. Number of Members.
3. Working Capital.
4. Reserve and other Funds.

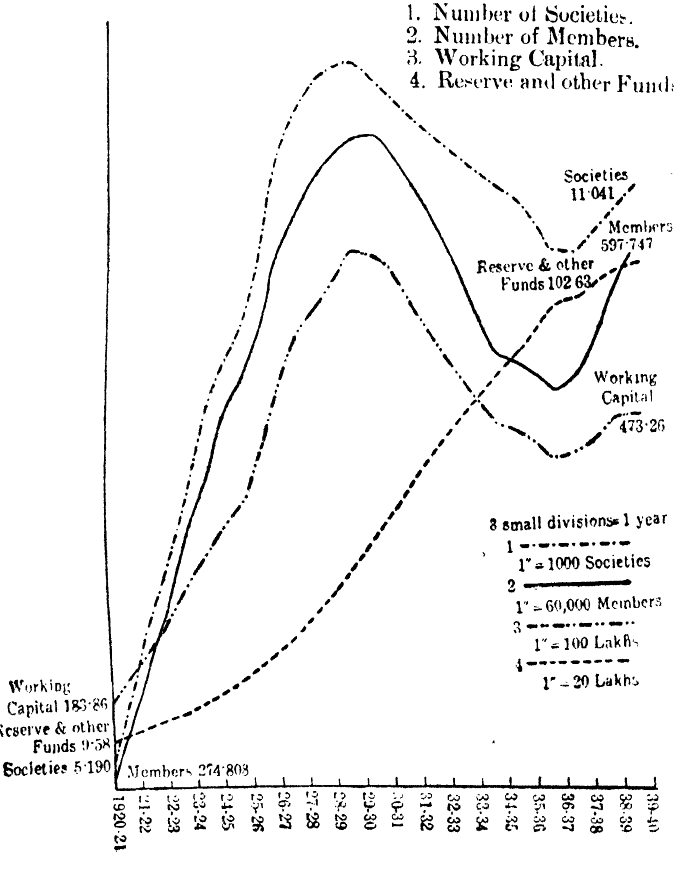

TABLE I[4]

Pimary Agricultural (Unlimited Liability) Credit Societies.

Year.	Number of Societies.	Number of Members.	Reserve and other Funds.	Working Capital.
(1)	(2)	(3)	(4)	(5)
			Rs. Lakhs.	Rs. Lakhs.
1920-21	5,199	274,808	9·58	183·86
1921-22	6,190	325,536	10·71	221·86
1922-23	7,076	375,500	12·89	264·02
1923-24	8,077	437,292	15·66	313·80
1924-25	9,131	486,105	18·88	356·54
1925-26	9,787	522,061	22·73	396·34
1926-27	10,954	581,366	27·27	486·32
1927-28	11,911	627,774	32·98	568·09
1928-29	12,323	652,285	39·29	607·40
1929-30	12,478	670,037	46·65	651·14
1930-31	12,246	670,037	53·88	639·89
1931-32 to 1933-34	...	...	...	...
1934-35	11,112	531,225	83·54	456·55
1935-36	10,943	524,986	89·62	452·73
1936-37	10,456	509,307	96·68	428·96
1937-38	10,451	522,615	98·61	435·78
1938-39	10,743	565,301	101·12	471·11
1939-40	11,041	597,747	102·63	473·26

* Separate figures for agricultural credit societies alone are not available in the Administration Reports for the years from 1931-32 to 1933-34.

It is noticeable from Table I that the period from 1920-21 to 1929-30 was marked by a steady increase in the number of societies and of members. But, from 1930-31 to 1937-38 there was a progressive decline in their number as a result of the weeding out of a large number of unfit

[4] All the tables and figures have been taken from (1) *The Reports on the Working of Co-operative Societies in the Madras Province*, and (2) *The Report of the Committee on Co-operation in Madras*, 1939-40.

societies that could not stand the stress and strain of the depression. The number of these societies again gradually rose, from the lowest figure of 10,451 in 1937-38 to 11,041 by 1939-40, owing to an increase in the demand of the agricultural population for co-operative credit brought about by the recent debt relief legislation of the government of Madras.

The marked increase in the amount of overdues from members to rural credit societies reveals that their financial position is far from satisfactory. The following table indicates the percentage of overdues (principal only) from members to agricultural credit co-operatives from 1919-20 to 1939-40:

GRAPH SHOWING

The amount and percentage of Overdues (Principal only)

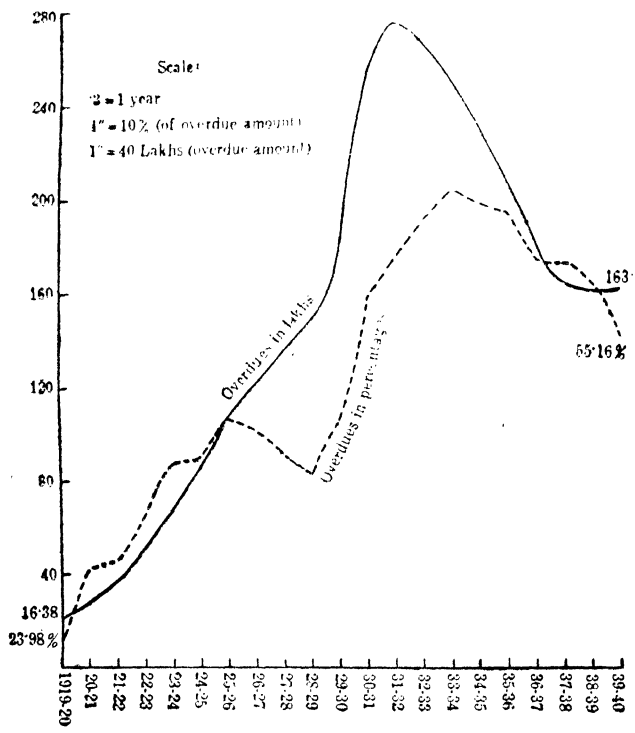

TABLE II[4a]

Statement showing the percentage of overdues (Principal only) from members to Agricultural Credit Societies.

Year.	Demand.	Balance.	Percentage of Balance to Demand
(1)	(2)	(3)	(4)
	Rs. Lakhs	Rs. Lakhs.	
1919-20	68·32	16·38	25·98
1920-21	95·49	29·28	30·66
1921-22	119·87	37·26	31·08
1922-23	137·95	49·61	35·96
1923-24	163·96	68·36	41·69
1924-25	201·57	84·56	41·95
1925-26	233·57	107·79	46·15
1926-27	263·63	121·29	45·66
1927-28	316·74	135·57	42·81
1928-29	361·12	147·73	40·90
1929-30	379·72	176·24	47·00
1930-31	427·30	254·51	59·56
1931-32	436·88	275·73	63·11
1932-33	391·46	264·41	67·55
1933-34	356·24	251·89	70·71
1934-35*	324·26	225·84	69·65
1935-36	300·58	205·30	68·30
1936-37	277·70	176·15	63·43
1937-38	257·80	163·42	63·39
1938-39	265·73	162·25	61·06
1939-40	295·89	163·20	55·16

* The figures for years from 1934-35 to 1939—40 exclude those relating to Land Mortgage Banks.

The alarming proportion which the 'C' and 'D' class societies bear to the total number of societies shows the degree of their deterioration.

4a As a result of the unprecedented slump in agricultural prices and an invitable reduction in the repaying capacity of the agriculturist borrowers the percentage of overdues mounted up from 40·9 in 1928-29 to 70·71 in 1933-34. Eversince, there has been a gradual reduction in the amount of these arrears, year after year.

TABLE III.[5]

Classification of Societies, 1939-40.
(Audited up to 10th October, 1940)

District.		Thoroughly good societies. A	Societies with name of defaulters and some mistakes in accounts. B	All other societies that do not come under class 'D'. C	Bad societies which will be cancelled should they fail to come under class 'C' within two years. D	Total.
Anantapur	...	4	13	145	27	187
Arcot, North	...	8	23	232	17	280
Do. South	...	3	23	232	31	289
Bellary	...	2	15	113	17	147
Chingleput	...	5	37	183	49	274
Chittor	...	5	40	103	20	168
Coimbatore	...	12	80	182	9	283
Cuddapah	...	4	26	43	23	96
Godavari East	...	11	15	119	33	178
Do. West	...	9	26	108	12	155
Guntur	...	1	39	172	28	240
Kanara, South	...	18	31	69	12	130
Kistna	...	9	111	84	23	227
Kurnool	...	2	8	64	21	95
Madras	...	13	10	7	1	31
Madura	...	12	40	127	9	188
Malabar	...	3	23	64	31	121
Nellore	...	4	18	87	11	120
Nilgiris	...	5	6	25	1	37
Ramnad	...	6	15	68	20	109
Salem ...	...	9	22	114	23	168
Tanjore	...	7	33	236	23	299
Tinnevelly	...	9	26	180	21	236
Trichinopoly	...	4	38	169	35	246
Vizagapatam	...	11	36	148	10	205
Total	...	176	754	3,074	507	4,511

[5] *Report on the Working of Co-operative Societies*, 1939-40, p. 92.

It is depressing to gather from Table III that the number of 'C' and 'D' class societies constitute a little over 79 per cent of the total number of credit co-operatives audited up to 10th October, 1940.

It should also be mentioned in this connection that the number of "Loss Societies" (*i.e.*, societies in which overdue interest on loans due from members exceeds the difference between the total assets and total liabilities) has ranged from 50 to 55 per cent of the total number of societies during the last ten years.[6] It is obvious that a large majority of these organisations are not able to effectively discharge their credit functions, and so are practically in a state of suspended animation.

The Co-operative Department and the different committees that conducted meticulous investigations into this subject from time to time have emphasised the various factors which have thrown the present co-operative organisation into a morass of stagnation. This stalemate may partly be atributed to the economic blizzard which had its repercussions on the rural credit co-operatives by increasing the number of 'D' class societies and the amount of arrears due from members whose cash incomes were considerably cut down by a steep fall in the prices of their produce. The knowledge of banking in the staff and directorate of most of the rural credit societies is generally inadequate. What has been said by Prof. J. P. Niyogi about the conditions in Bengal may be applied with equal appropriateness to the position in Madras. "Loans had been readily granted without proper enquiry relying on the security of unlimited liability. Capital asset rather than repaying capacity was the usual basis for the grant of credit. Even these assets were not properly estimated."[7] Another pre-eminent reason for this unfortunate position in our country is that the essential spirit of co-operation has not been fully realised. Co-operative activity is certainly a business proposition. The results attained must be gauged at every stage. However,

[6] *Report of the Committee on Co-operation*, 1940, p. 130.

[7] *The Co-operative Movement in Bengal*, by Prof. J. P. Niyogi, p. 100.

ever, the co-operative idea implies an inseparable relation between 'business and ethics.' It is by all means superior to the mere commercial honesty insisted upon by the present industrial system. The co-operative movement has made tremendous strides in those countries only where its protagonists have impressed upon their people that the co-operative way of life is at once a 'business and a faith' which ideal has not been given in our country the attention it deserves. So long as co-operation is regarded mainly as an administrative policy divorced from all higher idealistic ends, co-operative organisations cannot achieve any encouraging measure of success.

It must be admitted that there is a large element of truth in the statement that "policies, whether for national, municipal or purely personal ends have nothing to do with the working of co-operative societies and where these are manipulated to secure influence or votes, they are inevitably perverted from their true purpose, corrupted slowly, but surely ruined."[8]

The Government and the Co-operators, no doubt realised the urgency of devising ways and means for checking some of the existing evils and for infusing fresh life and vitality into all the moribund societies. The measures taken so far to reduce the burden of debt are not adequate. A more comprehensive and well thought-out programme is absolutely necessary to rehabilitate the dormant societies. 'A' and 'B' class societies do not present any difficulties. 'D' class societies that are hopelessly bad for over a long time refuse to be helped by any kind of arrangement; they are like "a suffering man's aching teeth" which must be removed. In order to save the reputation of the co-operative movement, the only alternative seems to be to liquidate this category of societies as early as possible; and the void left in the structure of agricultural finance will have to be made up later, when conditions improve.

As for the third class of societies, the Committee on Co-operation has recommended abolition of penal interest, extension of time, recoveries of arrears in kind, 'rent pur-

[8] *Administration Report*, 1940, p. 12.

chase' on the Burma model which meet with general acceptance. The application of the Burma scheme to India, of course, with the necessary modifications to suit local peculiarities as advocated by the Agricultural Credit Department of the Reserve Bank of India would go a long way "to nurse back our bad societies to health and normal life and create a new and vigorous co-operative movement out of the ashes of the old."[9]

To write off the bad debts of societies the bad debt reserves of each of which are insufficient to meet them, the Committee on Co-operation has suggested the formation of a 'voluntary pool' of the reserve funds of primary societies in the area of a central bank and of the central bank concerned, with the Registrar as the trustee. The object underlying the scheme is to effectively tackle the problem of overdues and to give a new lease of life to such of the societies as would be found capable of resuscitation. The sponsors of the plan maintain, and rightly too, that it is a logical extension of the co-operative principle of 'each for all and all for each' from individuals to societies. The novel character of the recommendation evoked loud protests from authoritative quarters. A minority of the members of the Committee considered it a dangerous innovation which would jeopardise the position of sound societies and central banks. The objections expressed by the minority that the proposal would put a premium on bad management, undermine the collective responsibility of members in the administration of the society and lead to an arbitrary determination of bad debts are mostly imaginary. The "pool" has been devised as a temporary expedient to be in operation for a period not exceeding five years, and it will cease to exist on serving its sole purpose of removing the incubus of bad debt that has paralysed the movement. It should also be noted that the concession contemplated under the scheme is not intended to apply to future bad loans and also to grossly mismanaged societies whose debts have been the result of fraud and embezzelment.

[9] *Bulletin*, No. 3, pp. 27-28.

Therefore, there is little warrant for stigmatising the scheme as an instance 'of robbing Peter to pay Paul.' If some "inveterate cancers in the co-operative body" resist mild remedies, more drastic "measures which are not only of a therapeutic but of a prophylactic and hygienic character as well"[10] must be taken. Mere doctrinaire views have sometimes to be subordinated to larger considerations of maximum social welfare and economic justice. As the co-operative movtment is just at present passing through a phase of healthy introspection and self-criticism, schemes of consolidation and rectification cannot afford to overlook the infinite "potentialities of non-profit co-operative economy."[11] A crass individualistic attitude of each society for itself misses the essentially organic character of the rural co-operative structure the efficiency of which ultimately depends upon the vitality of all its interdependent parts.

III

It is now just 37 years since co-operation has struck its roots into our country and has passed through varying vicissitudes. Though the pioneers of the co-operative movement in our country set before themselves the ambitious ideal of making the rural credit society the centre of moral and educational influence in the village, in actual practice it has been no more than a money-lending concern; and its achievements on the non-credit side are by no means very appreciable. The progress so far made is not at all commensuarate with the population of the province and their credit requirements. The total number of all agricultural societies in the Madras Presidency during the year 1939-40 is 11,910, while the total number of villages ,with a population of 5,000 and below is in the neighbourhood of 51,000 (excludnig Madras States). Out of about 16,000 and odd villages in Andhra Desa, not more than 6,500 villages are covered by societies. It is estimated that only about 8·54 per cent of the population of the province was associated with the Co-operative Movement in 1939. It is a compara-

[10] & [11] The Presidential Address of the Hon'ble V. Ramdas Pantulu at the Bengal Provincial Co-operative Conference held on the 30th March, 1940.

tively high percentage for our country, as it is exceeded by only two other provinces, the Punjab and Bombay with 16·33 and 14·82 per cent respectively. Only 6 per cent of the capital requirements of the ryots was supplied by he co-operative societies as revealed by Mr. W. R. S. Sathianathan's enquiry into the indebtedness of the province.

The rural credit societies have remained mainly 'borrowing groups.' They have not achieved anything worthy of note to promote thrift and savings among villagers. Co-operation is "a thrift-producing" movement. In so far as the agricultural credit society has not been able to discharge one of its vital functions, rural co-operation has failed in one of its fundamental objects. "With the increase of the ratio of small savings the problem of high liquidity will become easier."[12] In the words of Sir M. Darling "all pressure requires some counterpoise, and in the village society the pressure to borrow, which may otherwise be irresistible, requires the counterpoise of the depositor who is likely to keep a stricter watch on the business of the society than the borrower." As suggested by the Committee on Co-operation, a vigorous thrift campaign should be undertaken. The Hundi-box system should be adopted for collecting savings in cash as well as in kind. The village credit society must be made to provide for linking up saving with some definite objective and fill up in several other ways the long-felt lacuna in the structure of rural finance.

The Committee on Co-operation, 1939-40, has outlined a five, seven or ten-year plan of expansion of village credit co-operatives and their reorganisation on a wider basis. The weakest link' in the co-operative chain is the village society and unless its foundations are strengthened and widened, a solid co-operative edifice cannot be raised. Among a large number of suggestions made by the Committee to give a new fillip to the movement have been included a few outstanding departures from the traditional co-operative practice. Their recommendations pertaining to the area of operations, the nature of liability and the

[12] *Co-operative Banking*, N. Barou. p. 271.

functions of reorganised societies have given rise to a great deal of controversy.

(A) *Area of Operations.*

The Committee says "that the most convenient and effective way of covering the whole province with societies will be the amalgamation of such existing small societies as are unable to work individually and can be conveniently grouped into larger units" within a radius of three to five miles according to local conditions. Employment of paid staff, proper discharge of operations on a business basis, greater scope for the selection of better men, improved audit and supervision are some of the advantages claimed for this scheme. Two members of the Committee supported by the Reserve Bank Officer have disagreed with the majority and observed that the new scheme loses sight of the fundamental Raiffeisen principles[13] on which our rural Credit Societies are modelled. A limited and a compact area alone will secure cohesion and corporate life which is the criterion for the success of any co-operative endeavour. The proposed extension of the area of the society over a group of villages will instead of obliterating the evil of village factions lead to the creation of a more formidable evil of inter-village rivalry.

There can be little doubt that the village in India, since times immemorial, has been a convenient and compact unit of corporate activity. It is of much greater antiquity than the new administrative creations that are sometimes artificial and anomalous in character. The village has been able to retain its individuality as a separate and distinct unit with many time-honoured social and economic tradi-

[13] "Such as limitation of area, so as to secure mutual personal knowledge on the part of members; low shares; loans for productive and provident purposes; promotion of the moral as well as the material advancement of members who should live under similar conditions and have active social and economic intercourse with one another; 400 and 2,000 to be the minimum and maximum population for the operation of a credit society, etc."—*Report of an Enquiry into Agricultural Credit and Co-operation in Germany*, J. R. Cahill, pp. 83 and 84.

tions which converge on well recognised objects. The village credit societies have till now remained uneconomic units unable to pay their way because of causes other than the smallness of their size. A local unit sufficiently small and concentrated alone will ensure "a unity of sentiment and dovetailing of interests, close touch and general mutual confidence" which are indispensable prerequisites for the success of rural co-operation. With constant guidance and fostering care the credit co-operatives, one in each village, will be able to carry on their work further afield; but the enthronement of the principle of amalgamation (in place of "neighbourhood community"—Nachbarschaftsverband) by allowing indifference and irresponsibility, sometimes inter-village jealousy and competition, to creep into the administration of larger societies, may strike at the very root of co-operation in the province.

The Committee also considered that along with the expansion of the rural credit societies there should be a vigorous drive to increase their membership by drawing into their ambit every eligible family of good character without resorting to any kind of compulsion. Some members of the committee have urged that the voluntary basis of rural credit organisation should be altered and statutory compulsion be introduced in certain circumstances. The majority, pointing out that 'compulsory Co-operation' is a contradiction in terms have brushed the proposition aside as being impracticable.

It is no doubt true that co-operation is a voluntary effort which should come from within and not from without. It is equally true that education and propaganda are slow processes and cannot by themselves accelerate the pace of co-operative progress among the illiterate and custom-ridden masses of our country. Therefore, we feel it rather difficult to share the optimism of the committee that the variety of services undertaken by the reconstructed societies should be sufficient inducement for a large number of villagers joining the societies. The history of the co-operative movement abroad shows that co-operation in certain branches like 'milk marketing' has been the outcome of state regimentation in totalitarian countries like Germany, Italy and Russia

and of benevolent state compulsion in democratic Britain and her dominions.[14] If co-operation is to be made a dominant and revitalising force in village life there is no reason why we should not make co-operation compulsory, "as primary education is, even as prohibition is!"[15] It has not been the intention of the advocates of compulsory co-operation to deem the failure to join a society as an offence punishable by fine or imprisonment. But, "what is required is that the ryot should be prohibited from borrowing except from a co-operative society and no mortgage of agricultural land should be recognised as valid unless made to or through an agricultural co-operative society."[16] Such a co-operative interdiction, the committee apprehend, would defeat their object and prove prejudicial to the free development of the economic stature of the agriculturists, and so on principle are opposed even to an indirect sterilisation of money-lenders' credit. The fear entertained by some co-operators that compulsion in any form would reduce the co-operative societies into "soulless institutions without any spark of idealism" is entirely unfounded. One should not underestimate the difficulties involved in compulsion. Nevertheless, they are not insurmountable. If the goal aimed at is to be, at least, approached, if not actually reached, the pressing problems have to be tackled in a bold spirit of constructive realism rather than of excessive caution and sentimentality. In trying to defend some of their novel recommendations which offend against our existing co-operative theory and practice, the committee have made a weighty observation which may be conveniently quoted as a suitable reply to their own arguments for not favouring any kind of compulsion in their scheme of reorganisation.

[14] *Vide* Mr. K. C. Ramakrishnan's article entitled 'Reorganisation of Rural Credit Societies.' *Indian Co-operative Review*. Vol. VI. No. 3, p. 364.

[15] Dr. Pattabhi in one of his notes to the Committee also writes "If people can be conscribed to die in a war of physical destructiveness, why we may not conscript people to live in a war of socio-economic disorganisation?"

[16] Sri K. Bhasyam's Note of Dissent. *Report*, p. 407.

"Past experience has convinced the majority of us that changing times call for a change in outlook. Co-operation is a live and growing movement and it offers a rich field for adaptation and experiment. Mere co-operative orthodoxy should not stand in the way of experiments being made and experience gained."

(B) *Functions.*

A certain section of co-operators have for some years been advocating the conversion of the rural co-operative society into a general-purpose or multi-purpose society. The Bulletins of the Reserve Bank of India have created a "boom in the multi-purpose business." Describing the success attained by the Banking Union at Kodinar in the Baroda State, Bulletin I urged the need for embarking on a simultaneous and sustained attack on all the factors that limit the income and increase the expenditure of the rural population. It has been argued that separate and disjointed efforts have a doubtful value in contributing to an all-round amelioration in the condition of the farmer. The bulletin holds "that his whole psychology of life must be changed, and if this is to be done, it is necessary that he should be taken up as a whole man and that all the aspects of his economic life should be dealt with by the same agency."[17] The Committee on Co-operation also is of opinion that the functions of the agricultural credit co-operatives should be enlarged so as to cover all the economic needs of the members and to assist them in the triple programme of 'better farming, better business and better living.'

'Multi-purpose' like the interesting word 'Mesopotamia' is regarded by some as a unique panacea for all co-operative ills. This concept is not a new one. The existing by-laws of the rural credit societies provide for a large variety of functions contemplated by the present multi-purpose enthusiasts. The Registrar of Co-operative Societies, Madras, mentions that "two or three multi-purpose Societies on a limited liability basis, which are in existence, have not shown such striking results as to warrant the wholesale and

[17] *Bulletin I*, p. 16.

immediate transformation of the present structure of the village society."[18] A large number of varied functions like the supply of manure, seed, implements and other equipment necessary for agriculture, the promotion of subsidiary industries etc., cannot be effectively discharged in the beginning by a single co-operative body. There must be more and more specialised separate organisations the formation of which has been recommended by the committee on Co-operation, where special technique, finance or marketing arrangements are required. As Mr. C. F. Strickland points out "a society aiming at a general uniform" not at a specific and limited object, is in danger of becoming cumbrous in mechanism and unintelligible to the simpler members . . . . . Societies which ambitiously try to carry on several activities become highly complex and technical and probably end in disaster." The miracle of metamorphosing the peasants' enire psychology of life cannot be performed by saddling the rural co-operative society with numerous credit and non-credit functions. It should not be forgotten that the initiative and ability, the integrity and devotion to service that the multiple-purpose scheme demands are at present conspicuous by their absence in most of the villages.

The Officer in charge of the Agricultural credit Department of the Reserve Bank of India in the course of a statement to the committee (at Coimbatore) remarked that "if a society is going to take up so many functions, its profits from a village would be sufficient to maintain its staff; there would certainly be increased income as a result of increased activities." Though the committee on co-operation have favoured their formation, they are inclined to view them in a spirit of chastened optimism; and so express misgivings that "we should not count the rupees that the multiple-purpose chicken are going to earn for us even before the eggs are hatched."[19] The thirteenth Conference of Registrars discussed this subject and formulated a commendable policy that "Provinces should experiment with

[18] *Report on the Working of Co-operative Societies in Madras*. 1940, p. 31.

[19] *Report*, p. 217.

multiple-purpose societies to ascertain more clearly the conditions under which they are likely to thrive and the form which they should take with special reference to the area of their operations, liability and purpose." It is highly gratifying to be assured by the co-operative Registrar, Madras, that he would take the necessary action "to induce the existing credit societies to make their multiple-purpose by-laws a reality",[20] while of course, carrying on experiments with the specific type of society, wherever conditions are favourable.

A full-fledged multiple-purpose society with a number of departments, each entrusted with a specific function commanding all the requisite capital as well as human resources can only be the result of a gradual growth and evolution. Such a society may be regarded as the ultimate goal, "the co-operative millennium" towards which, though difficult of realisation, all co-operative efforts should be directed. A society may at first take up only one phase of the problem like credit, or sale. As it acquires experience in that branch of work and creates confidence in the minds of its members, new functions may be taken in hand in order to slowly but steadily expand and enrich the economic life of the rural population.

(C) *Liability.*

No other problem pertaining to the present subject is more controversial than the nature of the liability on which the reconstructed societies are to be based. Extremely conflicting are the views held by the several authorities on the subject. The co-operative movement in our country, since its very inception has been almost identified with the Raiffeisen credit system one of the fundamental characteristics of which is unlimited liability. The essential idea underlying this principle is that the members pledge their entire property and individually as well as collectively undertake the responsibility for the total liability of the whole society, so that they all "either swim or sink together". The pillars upon which the unlimited liability societies were

[20] *Administration Report*, 1940, p. 31.

designed to rest are maximum of responsibility and minimum of risk. Describing the safeguards and limitations with which unlimited liability in rural credit societies is hedged in, Mr. H. Calvert says that "the loss in a co-operative society will fall firstly on the member, secondly on his sureties, thirdly on the reserve, fourthly on the share capital, fifthly on the unlimited liability of the members and finally on the creditors of the society."[21] Notwithstanding this ample protection said to have been afforded to the creditors, there is not even a shadow of doubt that unlimited liability has scared away a large body of well-to-do ryots who are reluctant to entangle themselves in the risks involved therein. The enforcement of unlimited liability to make good the deficits in the budgets of a large number of societies, in recent years, has shattered popular faith in the principle and discredited the movement. There is a large element of truth in the opinion expressed by the Townsend Committee that the deterioration in the financial position of societies may partly be ascribed to "an exaggerated sense of security in the minds of the financing institutions, which is based on a wrong impression of the implications of unlimited liability and failure to realise the seriousness of the results of enforcing that liability."[22] It is, in effect, only a contributory liability; and there is no way of preventing sinister and surreptitious alienations of property which are not uncommon with dishonest members.

The actual working of the principle has falsified the long-cherished expectation that "the unlimited liability society should stand on no etiquette with candidates, consider well whether such were eligible and unsparingly supervise them."[23] The Officer in charge of the Agricultural Credit Department of the Reserve Bank of India, in the course of his evidence to the committee on co-operation, pointed out "we feel that unlimited liability is a matter of necessity and not a matter of choice . . . . The removal

[21] *The Law and Principles of Co-operation*, by Calvert, p. 40.

[22] *The Townsend Committee Report*, p. 29.

[23] *Co-operation in India*, by Wolff, p. 63.

of unlimited liability will take away whatever restraint there existed on the committee and the members and the natural supervision which is the bedrock of a rural credit society will be replaced by a mutual collusion which will create difficulties more serious than those with which the co-operative movement is faced at present."[24] It must be said that the picture is a little overdrawn. Has it really been able to impose either on the committee or on members any effective restraint? Can we say that the principle of unlimited liability in primary societies has actually promoted among their clientele the true co-operative spirit of "each for all" and "all for each"? Has it led to "the capitalisation of honesty and character" and "the democratisation of credit"? Has it succeeded in eliminating party or communal acerbities and in fostering unity and solidarity in our villages? To say 'yes' is a travesty of facts.

That is the reason why the concensus of opinion in Madras, as gathered from the large volume of written evidence submitted to the Committee on Co-operation seems to be, of late veering round a change from the unlimited to limited liability. The fear that such a change would shift emphasis from character to credit-worthiness is baseless as seen from the fact that "loans on mortgage of lands constituted 56 per cent, while those on personal security were only 44 per cent of the loans in the province." All co-operative idealism, material as well as moral, cannot be the monopoly of unlimited liability societies. A too strict adherence to the status quo, or any other system for the matter of that in the abstract may prove misleading and mischievous in the result. Even the central Banking Enquiry Committee that held the view that unlimited liability was of great practical value in raising and dispensing rural co-operative credit had, however, "no objection to limited liability societies being encouraged in places where the co-operative movement cannot make a great headway under the unlimited

[24] (Extract from the evidence) *Report of the Committee on Co-operation*, pp. 157 and 158.

liability system."[25] Though the thirteenth conference of the Registrars of Co-operative Societies (December 1939) favoured the continuance of unlimited liability, it did not assume an uncompromising attitude; and so suggested that scope should be given to agricultural credit societies for experiments with limited liability. On a judicious consideration of all aspects of the matter, the majority of the committee on Co-operation has suggested that "the liability of a village credit society should normally be limited but if, in the opinion of the Registrar, having regard to local opinion and other circumstances, unlimited liability is more suitable for any society, its liability may be unlimited."

All the objections against the proposed change, so eloquently put forward by the high-priests of unlimited liability lose much of their force, if it is recognised "that Raiffeisen and Schulze-Delitzsch do not represent two competing ideals, the products of two economic schools of thought and investigation, but are simply concrete specimens of organisation shaped almost wholly by local circumstances."[26] The over-riding consideration should therefore be, the actually prevailing circumstances in the rural areas which, at present more than ever before, point to the need for a change from unlimited to limited liability. The latter is simple, less risky and can be more easily adopted. Any attempt to incorporate the principle of limited liability into the rural credit societies is likely to inspire greater confidence in the public and induce a far larger number of villagers to come within the co-operative fold.

The Royal Commission on Agriculture rightly observed that only through the medium of primary societies can the teaching of the expert be brought to multitudes which coud not be reached individually. Even firm believers in the democratic ideals of co-operation have realised that greater harmony and collaboration between official and non-official agencies should be brought about. And, a premature de-officialisation of the movement is fraught with dangerous

[25] *The Report of the Central Banking Enquiry Committee*, p. 120.

[26] *Agricultural Co-operation in India*, by John Matthai, p. 25.

consequences. The Government as well as the Co-operators should bear in mind the valuable suggestion thrown out recently by a veteran Indian economist, Prof. V. G. Kale. "Little reflection would show that to undertake a drive for the expansion of the movement over the countryside would be to repeat a mistake committed in the past of aiming at quantity and big results regardless of quality. Unless satisfactory provision is made for propaganda, education, training and supervision, it is useless to think of multiplying primary societies."[27]

As regards the staff of the agricultural credit societies there can be no two opinions about the failure of the purely honorary system. Gratuitous work, so far as the clerical aspect is concerned, is bound to be perfunctory. Each society must have an accountant paid according to its work and financial position. There is urgent need for producing adequately trained professional co-operators who animated by an apostolic fervour and the wisdom of an enlightened philanthropy should lead the people along the path of rural development and progress. A rejuvenated primary society, one for each village, with limited liability and with a steady increase in the number and variety of its functions, must be so directed as to gradually transform the deficit agricultural economy into a surplus economy and thus bring hope and cheer to the very doors of the listless, fatalistic and unprogressive millions of our rural population.

SUMMARY

The subject of Rural Co-operation has, in recent years gained a fresh importance, as the whole movement is passing through a period of healthy introspection. In this paper, a brief survey is made of the present position of the primary credit societies in the Madras Province and of a few of the controversial proposals made recently for their reorganisation.

Agricultural credit societies are by far the most wide-spread type of Co-operative organisation and constitute the foundation of the rural co-operative structure. The alarming increase in the

[27] From his Inaugural Address delivered at the 24th Madras Provincial Co-operative Conference, 11th October, 1941.

number of 'C' and 'D' class societies and in the amount of their overdues reveals that the co-operative organisation has got stuck up in a morass of stagnation. This unfortunate stalemate is, besides many other causes, mainly attributable to a dearth of true co-operative spirit and character. Remedial measures taken so far have not been adequate. The proposal for the creation of 'a voluntary pool' is a far-sighted one, as it would remove the paralysing incubus of overdues.

The rural credit society, notwithstanding the high ideals cherished by the pioneers of the movement, has been no more than a money-lending concern. The progress so far made is not at all commensurate with the population of the province and their credit requirements. In order to raise a solid co-operative edifice the foundations of the rural credit society must be widened and strengthened.

The fundamental Raiffesein principle of "one village—one society" is the best for our country, as the village has been a convenient and compact unit of corporate activity. The introduction of a gentle dose of compulsion with a view to accelerate the pace of co-operative progress need not be dreaded as anathema. The Multiple-purpose society is no panacea for all co-operative ills. Yet, it may be recognised as the ultimate goal towards which, though difficult of realisation, all co-operative efforts should be patiently directed. There is no short-cut to the "co-operative millennium." Moreover, the economic and social conditions obtaining in villages more than ever before, point to the need for a change from unlimited to limited liability. Mere co-operative orthodoxy should not deter us from trying novel experiments in the fertile field of co-operation.

Therefore, the rejuvenated rural credit society, one for each village, with limited liability and with a steady increase in the number and variety of its functions must be so directed by well-trained persons of apostlic fervour as to gradually transform the deficit agricultural economy into a surplus economy.

RURAL CO-OPERATION IN THE BOMBAY PRESIDENCY

BY

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Nothing in India is of such tragic importance as the spectacle of an entire sub-continent of poorly fed and poorly clad men and women engaged in the pursuit of agriculture. For more than forty years now, we have been trying in this country to fight the twin evils of poverty and social disintegration with the help of Co-operation. But if the fate of Co-operation was not sealed in the very hour of its birth, as some of our socialist tub-thumping friends seem to believe, its achievements so far have not been commensurate with the encomiums of several interested parties.

In this paper I propose to examine the several serious limitations and the utility of rural co-operative credit in the Bombay Presidency, so that co-operators from other provinces may realise how common indeed are our needs and our little faults and misfortunes. If we have lost much by way of opportunities we have gained more by way of new experience. If something has been achieved, much more still remains to be achieved before Co-operation can be pronounced a great success. Rural Co-operation cannot become a success unless it can effectively tackle the complicated problem of rural credit. Hence I am limiting myself to this subject only.

Of the several hundred problems of our rural economy which are awaiting a solution, nothing is so vitally important as the problem of ruarl credit for, if this one problem cannot be solved, nothing that we can do in other spheres can be a permanent solvent of our economic ills. To pose this problem, however, has always been easier than to solve it. Rural credit is hedged round by so many limitations, social, economic and psychological, that many a stout-hearted

reformer has by this time tottered in his faith to achieve something really substantial.

To what extent has Co-operation solved the problem of rural credit? It was in May 1905 that the first credit society was organised in this Presidency in the Dharwar district. Thirty-five years later, in 1939-1940, there were not more than 3796 rural credit societies in a Province of 22,846 villages, which means that there was only one society for about every six villages. If we take for granted in our modest rough estimate that there are, on an average, about 200 eligible members only in need of finance in every village and, that on an average about 55 members can be financed by a co-operative credit society in case there is one in a particular village, it follows that since there is only one society for every six villages, only 55 persons can be financed out of every 1200 agriculturists in need of help. This means that to-day only 4·5 persons can be financed out of every hundred by our co-operative societies, after a long development of more than three decades. The position is even less satisfactory when we remember that even the few who are financed this way have to resort to the ubiquitous sowcar for additional loans, as we shall see when we deal with the financial side of the movement. We may also note here that not all the members of our societies are able to get finance due to very heavy overdue arrears which will be discussed later. When we consider this in relation to another very significant fact, namely, the very low average membership of our societies, it becomes quite clear that the co-operative credit movement is not able to help even 4·5 per cent of the people.

The success of a movement can be judged from its ability to attract and to influence more and more men every year. The co-operative credit movement has failed to pass this test for it embraces in its fold today actually a lesser number of agriculturists than it did ten years ago. In 1930 there were about 2,37,093 members in all the rural credit societies in the Presidency, excluding Sind, whereas by 1940 the number had fallen to 1,93,282—a reduction of nearly half a lakh. The total average membership has been falling in recent years. The average for the Presidency

(including Sind) came down from 79 to 57 between 1920 and 1931 and the average for the Presidency proper was 53·3 in 1936-37, 52·8 in 1937-38, 51·9 in 1938-39 and only 50·9 in 1939-40.

The fall in the average membership would not be serious at all if the number of societies was increasing. But in recent years both the number of societies and also the total number of members have been falling as the following figures show:—

Rural Credit Societies

Year	Number of Societies	Total Membership	Average Membership	Total Worki Capital
1926-27	3247	2,36,448	72·8	2,92,05,563
1929-30	3614	2,37,093	65·0	3,05,66,515
1932-33	3671	2,22,451	60·5	3,20,89,329
1936-37	3718	1,98,203	53·3	2,96,67,992
1937-38	3702	1,95,749	52·8	2,98,13,081
1938-39	3709	1,92,759	51·9	2,92,45,086
1939-40	3796	1,93,282	50·9	2,79,58,097

It will be noticed that there has been a sudden increase in the number of societies in 1939-40, but we cannot be very enthusiastic about this as most of the new societies registered are of a new experimental type, known as Multi-member societies, the success of which is verv uncertain indeed. The Registrar himself has had to admit that "it is likely that some readjustments in their working will be made." (*Report for 1939-40*, page 74.)

It is significant that a decrease both in working capital and in total membership is quite possible even when there is an increase in the total number of societies. Sometimes we find that in some tracts, like the backward Bhil area in 1938-39, an increase in membership can also go with a reduction in the owned, borrowed, and working capital in general. All these are dangerous portents. We have found that it is difficult to manage a society with a large

membership, like the Saundatti Society in the Parasgad taluka of Belgaum district, whose membership increased from 30 in 1907 to more than 400 in 1928-29, and which had to be split up in 1929 into four different societies.

Every honest investigator of rural co-operation has to admit that co-operation has failed to strike root in many parts of the Presidency, where we witness a very tragic stagnation. Many societies exist in a moribund condition. This is true not only in the "Dry" or Famine tracts, where crops are likely to fail or be deficient in seven years out of every ten but also in the Canal tracts of the Deccan, where there has never been a paucity of water supply.

There are facts, all of which cannot be incorporated in as short a paper as this, which show that there has been no progress in rural co-operative credit in the Canal tracts for many years now. There are areas where not a single new society has been organised since 1926 and where the majority of the societies are old ones which were organised as far back as 1911. Here not even a dozen new societies could be organised in a period of more than twenty years. When we remember that, in the Nira Canal tract for example, there were as many as 28 societies with a total membership of 2,504 members in 1916, as compared with the 37 societies with a total membership of 2,138 members only in 1939-40, the stagnation that has set in becomes quite clear.

The same tale of failure is repeated in the notorious Famine tracts of the Deccan, where co-operation exists only in name, due to causes for which perhaps not all deserve blame. In Dhond-Peta not many new societies have been registered for a very long time now. An examination in 1931 revealed that more than 85 per cent of the societies had been organised before 1921. Not a single society was of the "A" class, which is the highest audit classification, and as many as 16 out of 21, *i.e.*, more than 76 per cent of the societies, were in the lowest audit classification—in the "C" and "D" classes. It is not uncommon to find here societies working at a loss. Their reserve funds are meagre and one had a reserve fund of Rs. 5.

If we examine the financial position of our rural credit

societies, we find facts which are equally shocking. Perhaps the most useful financial test of the movement is the percentage of unauthorised arrears. If in any society the unauthorised arrears go on increasing considerably every year, it follows that such a society is bound to stop financing its members and can exist only for the purpose of recovering its past dues. The percentage of unauthorised arrears to the total amount due for repayment in case of the rural credit societies was as high as 52 in 1936-37, 63 in 1937-38, 61 in 1938-39, and 59 in 1939-40. That in recent years the percentage of arrears to total outstandings should have been as high as 52 to 63 is a serious sign of deterioration. If we do not exclude figures for Sind during the years 1919-1930, we find that the percentage of overdues to total working capital has increased from 7·1 in 1915-16, 12·4 in 1921-22, 30·6 in 1927-28, to 52·6 in 1937-38 and 47·38 in 1939-40. This continuous rise, on the whole, is a dangerous sign.

The figures given above are for the Presidency as a whole. But in certain isolated tracts the position is even worse. Among the Bhils of the West Khandesh District, 91% of the loans outstanding, were overdue in 1938-39. In the tract officially known as Precarious and Backward, comprising Kaira, Ahmedabad, Poona, Nagar, Sholapur, Bijapur, Ratnagiri and Kolaba, the corresponding figure is as high as 70 per cent. In the Canal tracts there have been many societies where, often, more than 80 to 83 per cent of the loans outstanding have been overdue. In 1939-40 about 79·6 per cent of the loans in the Nira Canal area were overdue, the corresponding figure for all the canal areas being as high as 72·8 per cent. The overdues in the canal societies have increased surprisingly rapidly. To mention only one fact here, whereas the total overdues of all the societies in the canal areas came to Rs. 1,90,491 in 1923-24, they reached the unbelievable figure of Rs. 19,43,818 in 1926-27—an almost unbelievable rise of 17½ lakhs of rupees in 3 or 4 years. In the Dry Tracts of the Deccan, much less money is involved, but in terms of percentage of the overdues to total outstandings the position is not much better than elsewhere. I found a few years ago that in case

of nearly 25 per cent of the societies in the Dhond-Peta tract alone, the entire amount due from members consisted of overdue arrears, *i.e.*, the percentage of the overdues to total dues was 100. There was only one society with no overdues and half the number of societies had overdues ranging from 80% to 100% of the total dues.

Overdues constitute a problem of crying importance and ought to exercise the attention of all practical co-operators, since if they are allowed to increase any more at the rate at which they have increased in the past, on their heels will quickly follow the ultimate collapse of the movement. Till now we have had to take the help of coercive measures, through specially appointed Government officers, as the sense of responsibility shown by the members of the societies is very unsatisfactory. The real co-operative principle of self-help, as contrasted with state-aid, has remained mere moonshine. Government has had to appoint Special Recovery Officers, Special Supervision Officers, Special Liquidation Officers, Reconstruction Officers and the like to set matters right. Whenever coercive processes are suspended recoveries fall below expectation.

The primary object of Co-operation is to make possible through proper combination and organisation based on thrift and self-help, the avoidance of all forms of waste in life. The very preamble to the Co-operative Societies' Act says, "Whereas it is expedient to facilitate the formation of co-operative societies for the promotion of thrift and self-help . . ." Rightly has it been said that there can be no thrift without co-operation and co-operation cannot exist without thrift. This object of co-operation does not seem to have been realised so far. Financially the movement has not been self-supporting. There was a time when it was believed by our officials that India had so much hoarded wealth that once credit societies were started money would flow in from this hoard like water from a higher to a lower level. This idea has remained an empty dream, for even to-day more than 50 per cent of the capital of credit societies is borrowed from other agencies. Our societies have to depend very largely on loans from the District Central Banks and the Provincial Bank. The condition of the rural

credit societies is so unsatisfactory that the District Central Banks have not been able to utilise more than about 36 per cent of their capital as loans to all societies. Though these Central Banks exist primarily for financing these village credit societies, they are unable to take any more risk and they have in their hands a large surplus which they have been investing in Government Securities and Post Office Certificates. These uncooperative methods of investment can be and, have been criticised by a numeer of joint-stock banks but it should be remembered that the responsibility for the whole evil lies largely on the Credit Societies and not on the Central Banks. Even the Provincial Bank itself, which has managed the situation with great tact and liberality, under the guidance of its very able managing director, finds itself burdened with overdues of more than twenty and a half lakhs of rupees.

If financially the movement has not been self-supporting, that is largely due to its inability to attract money from the members themselves and to encourage habits of thrift. If this could have been done the members would have shown a greater sense of responsibility, they would have supervised over their comrades with greater interest, and they would have tried to recover the amounts lent previously. As it is the money coming from outside has induced our agriculturists to look to the supply of money rather than to the creation of security and in looking for such supply they have learnt to rely on others not on themselves. Many of them look upon the societies as "Sarkari" associations or mandalis for the supply of money, such is their great ignorance about the principles of the movement. It is interesting to note that in this Presidency both the share capital and members' deposits are not voluntary but compulsory. They together constitute less than 20% of the total working capital, and the fact that they are compulsory shows that they could not be obtained voluntarily. That compulsory deposits encourage thrift, representing as they do payments out of lendings and not out of surplus capital, is a very debatable contention.

The most important source of a credit society ought to be the deposits from the members. A society can

be managed very efficiently wherever some important member of the managing committee, preferably the chairman, has deposited a large sum of his own, and looks after the society in his own self-interest with proper supervision. I have come across such societies but they are all too rare. At present the members' deposits do not amount to more than 7 per cent of the total capital. They have shown a tendency to fall but this is largely because they are being converted into share capital. The share system, which is theoretically not thoroughly co-operative, was opposed in 1921 by men like the late Sir Lalubhai Samaldas and Mr. G. K. Devadhar but has now been accepted by such experts as Mr. V. L. Mehta and the late Mr. B. F. Madan. If I mistake not the share system was introduced because of the tendency to withdraw deposits soon after maturity. The total share capital comes to about 11·91 per cent of the total capital or 33·3 lakhs out of 279 lakhs of rupees.

If it is objected that the agriculturist may require his money at any moment and therefore should not be expected to deposit his money for any fixed period, we may expect our societies to have at least Savings Deposits and Current Accounts. Regarding Savings Deposits we find that they have never been encouraged very much either by the Deaprtment or the Government, although Mr. Otto Rothfield as Registrar of Co-operative Societies seems to have looked upon them as a good substitute for Current Accounts which are much more difficult to manage, and which have been very rare indeed since they have been practically prohibited for a long time. On the whole we find that there has been no real development in both the above directions. The societies are not in a position to manage this kind of business, officials and non-officials seem to have discouraged it for a long time, and lastly, the agriculturists tell us that they cannot save much, and, further, would like to buy more land and thus rise in the estimation of their fellow-cultivators rather than invest in the societies. Lastly, we may ignore here the controversial question of non-members' deposits which do not come to more than 6·48% of the total working capital of our societies.

One of the great questions facing us to-day is, Has the movement released our agriculturists from the fatal stranglehold of the sowcari system? Since the movement is meant to supplant and not merely supplement the sowcar as a financing agency, its success can be gauged by the measure of opposition of the sowcars. Has the sowcar been affected very seriously? There are certain districts, like Khandesh for example, where the sowcars seem to be very hostile. In some cases they have refused to finance members of credit societies. There are again some tracts where the sowcars are working against the movement but not quite openly. On the whole, however, we find that there are so many villages without a society and, so many borrowers even in villages with such societies, that the attitude of the sowcar is more that of disdainful *laissez-faire* or indifference than of active hostility. It must not be also forgotten that a great many of the members of co-operative societies go to the sowcar for supplementary loans. This is not surprising since the average amount of fresh loan given is very low. It was as low as Rs. 31 only in 1939-40. Co-operative societies are thus unable to finance adequately and this is largely because of overdues and the very unsatisfactory nature of the recoveries made. So long as this continues, it is useless, perhaps even harmful, to talk of driving away the sowcars. The best method of making moneylending less attractive than what it is to-day is to make money so cheap that the sowcars themselves will give up their hold on the agriculturists. This is not possible in the near future.

A well-organised co-operative movement ought to be able to attract the bigger landholders and, with their help, finance the poorer members of the agricultural fraternity. To-day we are not able to attract the richer cultivators. There are notable exceptions and in such cases they are either the chairmen or important members of the managing committees. But on the whole we have failed to attract them, perhaps due to the inadequacy of finance as mentioned above. Nor has the movement been of much use to the very poor cultivators, either because of their insufficient holdings or their very low-paying capacity. Since members

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are indebted to sowcars and since there is always the risk that their landed assets may be disposed of to the sowcars, the societies insist on accepting the security of mortgage of land. This not only goes against one of the most fundamental principles of short-term co-operative credit, but it makes the financing of the large number of tenant-cultivators, both in the Deccan and in Sind, practically an impossibility. In all these respects we have laid ourselves open to the charge of the socialist critic that our movement is able to help only the comparatively well-to-do people and cannot really serve the impecunious masses, the tenants, the small tillers of the soil, and the like. Theoretically this criticism appears unsound, but in practice we should admit that we have not been able to do much for men like the "Haris" of Sind or the tenant-cultivators of the Deccan. No doubt a few tenants are also financed by our societies but that is only when their landlords are members of the managing committees and are able to stand surety for them —a condition which cannot always be satisfied, and which has led to peculiar evils of its own, like *benami* transactions, etc. We shall have to wait till the time when we shall be strong enough to substitute personal credit for asset security.

Individualists throughout the world have maintained that things which are state-managed are also stage-managed. This is not true in this world of socialism, yet there can be no getting away from the fact that for some time progress was reckoned only in terms of the total number of societies and many societies were organised by interested parties on thoroughly unsound foundations. In a backward country like India, without literacy and without a proper training in the moral foundations of co-operation, the total number of societies can be no test of the success of the movement. During the last ten years we have been trying therefore to cancel many bad societies and weed out undesirable members from others. The Departmental policy is that a society which has been audited and placed in the "D" class continuously for three years and which has suffered continuous losses and whose arrears of interest exceed an amount equivalent to three years' interest is fit only to be cancelled. During the last three years, 1937—

40, no less than 100 agricultural credit societies have been taken into liquidation, which is more than 64 per cent of the total number of all kinds of societies placed in liquidation in this period. These figures are by no means exceptional, but have been taken at random to illustrate the tendency. In fact the liquidation of even 100 societies in all in one year is by no means uncommon.

It is said that "the power for good of any movement must necessarily be determined by its basic principles but its progress depends upon the power of appeal in these principles to attract to its service men of the highest moral and intellectual type." We have produced a few exceptionally able official and non-official organisers, but we have not found men of the type required to manage the movement in the villages. The human material at our disposal is very defective due to illiteracy and ignorance, whereas co-operation requires a technique and intensive moral training and propaganda which are unknown here. Every co-operator knows the quality of men who compose the managing committees of our village societies, and the several evils that follow, like party strife, bribery, misappropriation, *benami* transactions, etc.

We should not exaggerate the defects of character as we experience them, for perhaps more important than these is the fact that for more than 25 years out of the 36 years of the co-operative experiment we tried to tackle the problem of rural finance on thoroughly unsound lines. Not only did we ignore the very fundamentals of co-operation, but also the urgent problem of rural indebtedness and debt conciliation, the need for organising effective marketing agencies, the possibilities of increasing the productivity of the soil, the great differences between long-term, intermediate term, and short-term credit, and the need for proper banking co-ordination. The problem of rural reconstruction is a hydra-headed problem and cannot be tackled in an isolated fashion hoping that co-operative credit will solve everything. It is this wrong approach that is responsible very largely indeed for the failure and stagnation in co-operation. All the activities of the farmer constitute different links in a continuous chain and any one

weak link in this chain is enough to weaken the chain as a whole. Perhaps in this chain the two weakest links are indebtedness and defective marketing.

It is only during recent years that we have come to realise that the most serious cancer of the co-operaitve system—that of overdues, is closely connected with the two twin problems of rural indebtedness and defective marketing. One of the great defects of co-operative credit societies is that they have ignored the function of marketing altogether, whereas on the other hand the sowcar has always been the most important purchaser of his borrowers' crops. In his case crop financing and marketing have always gone together. The crops of the members are not only purchased at low rates by the sowcar, but in backward tracts like West Khandesh they are taken away forcibly, the result being a natural increase in the overdues and the subsequent failure of co-perative credit. It is true that we have had a number of co-operative sale societies, but so long as our credit societies cannot finance adequately, the sowkar cannot be ousted and till then the members cannot make full use of the sale societies. Credit societies in the Karnatak have attempted to fine members who do not bring in their produce to the sale society, but this has been very ineffective indeed in the face of the adverse economic forces involved in our marketing organisation. Compulsion is meaningless when the finance is inadequate. A very negligible amount of purchase and sale work is also done by the branches of the District Central Banks and the Provincial Bank. Recently we have been witnessing a great increase in the number of what are known as Multi-purpose societies which are supposed to undertake the dual work of both crop financing and marketing. It is indeed good to have a society which can replace the sowcar in all directions for we do not have enough intelligent cultivators to constitute different committees for different sociteies set up for different purposes, but in spite of this I can not at all be sure of the success of the new Multi-purpose societies if they are to be organised with the same haste as the original credit societies.

It is true that in the future much can be, and indeed will be, done to strengthen co-operative sales organi-

sations. What we have done so far and our experiences in the matter, however, have not been quite satisfactory. The turnover of our sales societies has been so small that they have not been able to influence the market. Their relations with the local small traders have also not been very cordial in the past, as can be seen from the history of the sale societies at Gadag, Bailhongal, Barsi and elsewhere. There has also been a great paucity of efficient and honest managers, who can anticipate the trends of prices and inspire general confidence.

Like marketing, we have also neglected the equally serious problem of indebtedness. The belief of Government officials almost till now, that the co-operative movement would solve all our ills, was entirely misplaced. It is very unfortunate that Government's original aim of relieving indebtedness should have receded in the background with the development of the movement. Their inclination to wait and see during the last 30 years or more, in the hope that the problem would be solved by the passage of time and by co-operation, was a mistake. It is clear now that co-operation by itself cannot achieve everything and that what we need is an all-round planning for rural reconstruction.

If, on the one hand, Government and all important Commissions appointed so far to deal with the problem of finance and banking have shown an almost blind faith in the co-operative movement, on the other hand some non-official economists have shown recently an unnecessary distrust of co-operation. Some of them have tried to put forward alternative schemes. Whilst not scoffing at the movement they do not show any confidence in its power to do good in the near future. Both these attitudes are wrong. One may admit that if Co-operation shows no signs of growth, we must device quickly other ameliorative measures for the millions still untouched by the movement. But it is entirely wrong to believe that the movement so far has done no good whatever and that it has no power to do good in the future.

The failures and defects of Co-operation so far should not blind us to the fact that it can play a very

important part in any scheme of planning which we shall have to evolve sooner or later. It is of course true that a thorough overhauling of the Co-operative movement is needed to-day. We may have to reorganise the whole structure and build it anew, avoiding all the serious organisational mistakes of the past. It may also be repeated that we may not be able to solve every problem through Co-operation and, for that reason, other help may be needed. Our credit societies for example cannot, left to themselves, be expected to solve the problem of rural indebtedness. But taking this for granted there is no reason why we should run down and deny the utility of the movement.

I know of cases where Co-operation has led to such great results as a decrease in civil litigation and the redemption of lands from the hands of the sowcar. There are besides other results like the development of a sense of self-respect and independence which cannot be shown statistically. If the movement has failed to come up to the expectations of its pioneers that is largely because of several social and economic limitations of which they had no conception. If we can get honest men to work the societies, if we can train our cultivators in the principles of self-help and supervision of each other, rural co-operation will yet prove very beneficial.

The history of Co-operation may not be so dramatic as that of socialism or fascism. But let us not forget the French saying—"Good makes no noise, noise does no good." The time is coming when we shall feel as an axiom of economic geometry that vain in the long last are the hopes of men who seek happiness through movements divorced from all moral foundations. Co-operation appeals to us because it has a moral side which is lacking in the more noisy and dramatic panaceas of our time. I have criticised the movement in this paper only because I want it to improve to-morrow. Otherwise I am inclined to agree with our late lamented Rabindranath Tagore who said that "The Co-operative Movement represents the highest truth of man—the truth of his unity and is also the only way that can lead to the true wealth of the people, the wealth born of the great meeting of individual wills."

RURAL CO-OPERATION IN INDIA—ITS DEFICIENCIES

BY

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It is proposed to take as the theme of this paper certain deficiencies of the co-operative movement as it has developed in India. These have been summarised by Prof. V. G. Kale in his recent inaugural address to the twenty-fourth session of the Madras Provincial Co-operative Conference. They are as under: "its limited dimensions, its onesidedness, and the inefficiency of supervision and management of its institutions."

Limited Dimensions.

That the movement has not made its influence for good felt among large sections of the community and that even among those reached the extent of the benefit it has conferred is not as considerable as it should be is a common point of criticism. In his Presidential Address at the Madras Conference referred to above, Dr. B. V. Narayanaswamy Naidu refers to the fact that co-operation has not brought any significant relief to the agriculturist debtor. For, as he adds, although the growth of co-operation in Madras may be described as having been rapid, it has, so far, not affected more than a tenth of the population of the Province and even the ten per cent of people who have been influenced by the movement have not wholly benefited from it.[1] The membership of agricultural societies represents 1·12 per cent of the population of the provinces and States for which figures are available. In considering this question, the fact

[1] "Therefore, the co-operative movement has never been the major provider of rural finance in any province in India: 5 per cent rather than 50 per cent has been its share."—Dr. C. R. Fay.

cannot be ignored that association in a co-operative society is a purely voluntary act and that there is no obligation laid on individuals to form thier own societies or to join existing ones, or for existing societies to admit all and sundry to their membership. Then, again, there may be agriculturists who do not feel the need for co-operative credit.

To what extent does the insistence on unlimited liability for agricultural credit societies prevent desirable persons from joining societies? "It is becoming increasingly difficult," remarks the Hon'ble Syt. V. Ramdas Pantulu, "to induce members with property and character to join these village societies, and, indeed, many of those who have joined them are trying to withdraw from them." This is an observation which may be true of some parts of India, but not of all. It is, again, a question whether such individuals who are devoid of a sense of communal responsibility can be a source of strength to the movement. However, none wishes to make a fetish of unlimited liability. The door should be open, as the 13th Conference of Registrars resolved,[2] for the formation of village credit societies on the basis of limited liability when it is so deemed expedient.

Apart from well-placed individuals, however, lower down in the economic scale there may be many who will not be fit for co-operative credit. In a credit organization, especially one based on unlimited liability, admission to membership has to be of a selective type. In our keenness to develop an organized system of credit to replace the local money-lender or to break his monopoly, we are apt to forget that large numbers of the agricultural population, who are obviously below the economic level such as would entitle them to credit, can hardly be deemed as suitable for the membership of credit societies. They cannot practise thrift, not having the wherewithal to save, nor can they borrow, not having the requisite security to offer. They may be fit objects for State help, in times of distress they may have to

[2] "Agricultural credit societies, other than multi-purpose societies which are the subject of a separate resolution, should ordinarily continue to have unlimited liability, but scope may be given for experiments with such societies with limited liability."

resort to charity; but they can scarcely hope to rise in the economic scale through the medium of co-operative credit. Leaving individuals aside, one comes across villages and particularly backward areas peopled by aboriginal tribes which, on the whole, do not provide a congenial soil for co-operative credit.

Co-operative credit is often looked upon as the starting point for co-operative effort in other directions being simpler and easier to attend to than other forms of co-operation. But, though the operations of a credit society may not extend throughout the year or be large in volume, a credit society calls for the display of qualities of caution, firmness, tact and, above all, appraisal of the intangible security afforded by personal character, which qualities are not to be had in abundance everywhere. Nevertheless, this criticism should remind co-operators of their duty to see, first, that, wherever possible, the membership of societies gets free scope to expand, provided the principle of selection is kept in view. Bodies like district development boards, supervising unions or institutes may well have a regular programme of work to ensure that the message of co-operative credit reaches all villages and that assistance in the work of organization is made available to all sections of the rural population who need it. In backward regions or for backward communities, a still simpler form of co-operative organization, such as the grain bank, may be found more suitable. Dealings in grain are easier to grasp and to manage, for a beginning. They may be conducted on the traditional lines, with the usurious practice associated with such transactions eliminated.

The second part of this criticism may be interpreted as meaning that even in areas served by co-operative credit societies the burden of debt has not been reduced and that the extent of the credit provided is small compared to the requirements of the agriculturists who are members of societies. Let us examine here the origin of co-operative credit in India. As has been aptly observed in the Reserve Bank of India's Preliminary Report on Agricultural Credit: "It was thought that co-operative credit societies would supply the machinery (for financing the agriculturist for his

current needs) and supplant the money-lender from his monopoly in this respect. In fact, it was to fill this large gap in India's credit structure that the co-operative movement was primarily created." According to some, however, co-operative credit was introduced in India to assist in the relief of agricultural indebtedness; and it cannot be asserted that the growth in the volume and burden of debt has been appreciably influenced, for the country as a whole, by the development of co-operative credit. During the last fifteen to twenty years, the view has been taken by those connected with the co-operative movement that a separate machinery in the shape of a system of land mortgage credit should be created to provide long-term credit for the repayment of prior debts. The task of co-operative credit societies has been confined to the provision of short-term and intermediate-term credit. It has to be examined wheher the extent of these forms of credit provided through the societies is adequate for the productive requirements of the members and whether members of co-operative societies have to borrow from outside. The Indian Central Banking Inquiry Committee took the "figure of 300 to 400 crores of rupees as a lower limit, for the whole of British India, of the cultivators' requirements for short-term and intermediate-term working capital." The following table, giving figures for Provinces and States, may be of interest in considering various aspects of this question:—

TABLE A.

Total number of societies	...		93,767
,, ,, ,, members	...		35,60,425
Loans made during the year	...	Rs.	6,74,94,112
Loans repaid during the year	...	,,	6,15,57,480
Loans due at the end of the year	...	,,	24,01,44,148

(Figures are as at the close of 1938-39)

There is no reliable source of information for the volume of outside debt of members of co-operative credit

societies. The Committee on Co-operation in India (1915) made a recommendation[3] that societies should be empowered to call for this information, but this recommendation was not accepted by the Government of India. The grant of finance by societies in these circumstances is, to a certain extent, a leap in the dark, as reliable information is available only about mortgage debt. It is this factor of the continuance of outside debt that stands in the way, very often, of the successful working of societies. Cannot societies ensure that their members have no occasion to borrow from outside? In considering this question, we cannot ignore the fact that the task of recovering even the limited amount of finance that is ordinarily made available is nowhere in India an easy one. If societies are expected to provide adequate finance to their members, various safeguards have to be adopted. For such arrangements to be systematic and prompt, it is necessary that village societies should have their own resources in ample measure or should be able to draw freely and without delay on credits available from their financing agencies. The latter can provide this service only if they are close at hand and can maintain touch with the operations of their affiliated institutions. There should, from this point of view, be either banking unions or branches of central banks in rural areas.

One suggestion that has often been put forward for ensuring the punctual recovery of advances is that societies should be allowed a charge on such of the properties of their members as are declared available as security by the members at the time of admission to membership. A provision to this effect was contained in a Bill to amend the Bombay Co-operative Societies Act introduced in the Bombay Legislative Assembly in August 1939 which could not be passed through all its stages, with the suspension of the Provincial

[3] Recommendation No. 33: "Where individual creditors refuse to disclose claims, societies should be empowered to ascertain the debts of a member by serving a notice on such a creditor requiring him to state his claim subject to discharge of debt on failure to comply and prosecution for wilful falsehood. The system should be tried first in Burma and might be made applicable to all agriculturists whether members of societies or not." Paragraph 36.

Legislature a little later in the year.[4] In the alternative, the first charge on crops and cattle allowed under some of the provincial laws—or the prior claim under the Government of India Act—should be made binding and effective. The Madras Act (Section 53) makes violation of the charge conferred by the law an offence punishable, on conviction, with a fine amounting to a maximum of Rs. 500. In the recommendations put forward tentatively by the Reserve Bank of India in its Preliminary Report on Agricultural Credit, attention was drawn to a recommendation of the Calvert Committee for Burma. As stated in the Report, "the borrower would be allowed to dispose of his produce freely and leave the *bona fide* purchaser unaffected but it would be an offence for the borrower to utilize the sale-proceeds without first paying off the society's debt subject to the prior claims of land revenue and rent. Such provision exists in the English Agricultural Credits Act, 1928, which allows agricultural charges to be created in favour of certain banks. Under that Act, when a charge is so created, it is obligatory on the borrower to repay his loan out of the proceeds of the property charged and he is liable to penal servitude up to three years if, with intent to defraud, he fails to comply with the obligation, or disposes of his property. We would suggest that provincial governments might consider whether similar provisions might be made in respect of loans advanced by co-operative societies. As recommended by the Calvert Committee, the Co-operative Societies Act might be amended to give them a fixed charge or agricultural charge upon produce obtained with the aid of loans advanced by them, and to render liable to three months' imprisonment any cultivator-borrower who disposed of his produce with-

[4] It is considered desirable to secure inalienability of land in the case of members of a Resource Society in order to prevent such members from encumbering the same for debts incurred from other creditors. This will ensure the prevention of loss of lands to agriculturists. It is, therefore, proposed that membership of a Resources Society dispensing credit should constitute a charge on such of the property of a member as he may declare at the time of applying for membership and that subject to the dues of the Crown, the society shall have a first charge on such property."—(Clause 4, Objects and Reasons. L.A. Bill No. XXXII of 1939.)

out repaying this loan. A provision of this nature should ensure the prompt repayment of societies' loans and lessen the chances of default and should also strengthen the position of the societies *vis-à-vis* their members."

This recommendation does not find place in the Statutory Report of the Reserve Bank of India on Agricultural Credit. Opinion is not unanimous, even among coöperators, about the desirability of having a drastic provision of the type suggested by the Calvert Committee. In the absence, however, of legislative provisions of the type suggested, co-operative societies are thrown back on the existing machinery for recovery which has, to all appearance, proved unequal to the task of ensuring the punctual repayment of even the limited finance that is the practice at present to allow. Where personal security in the shape of member-sureties is deemed insufficient mortgages are taken as security, but that does not by itself help in liquidating short-term liabilities on maturity. Another method is to link credit with marketing and supply. Wherever tried on a well-devised basis, this practice has yielded better results in compact areas, but the legal sanction behind these arrangements has to be tested and the practical working out examined over large tracts with societies located away from the market towns. It is for economists to determine the extent to which these methods adopted at different places depart from co-operative principles. In the absence of one or the other of these adventitious aids, it will not, experience indicates, be sound for agricultural co-operative credit socieites, as a class, to undertake to provide adequate finance, unless the societies have reached a stage of development when, the bulk of the resources being local, the members themselves and their representatives may be expected to exercise the caution and vigilance that go with sound banking. Allied to this question is that of meeting the demands of members promptly as need arises. All who have examined this aspect recommend the sanction to members of credits drawable at short notice or on demand. Cash credits may have to be allowed to societies themselves to enable them to meet such requirements. These facilities are now available for some societies, but this form of deve-

lopment is bound to be gradual and slow. It will be facilitated by the formation of banking unions or the starting of branches of central banks in rural areas.

Onesidedness.

In the following table are shown the number of credit and non-credit agricultural societies in different provinces:—

TABLE B.

Province or State	Number of Agricultural Societies			Remarks.
	Credit	Non-credit	Total	
Madras ...	10,784	608	11,392	
Bombay ...	3,709	324	4,033	
Sind ...	973	28	1,001	
Bengal ...	26,088	1,458	27,546	
Bihar ...	6,651	388	7,039	
Orissa ...	2,498	12	2,510	
United Provinces	7,213	2,808	10,021	
Punjab ...	17,095	2,296	19,391	
Central Provinces and Berar ...	4,372	86	4,458	
Assam ...	1,334	17	1,351	
North-West Frontier Province...	716	38	754	
Coorg ...	244	...	244	
Ajmer-Merwara	513	25	538	
Delhi ...	209	40	249	
Mysore ...	1,325	74	1,399	
Baroda ...	812	184	996	
Hyderabad ...	...	2,909*	2,909	
Bhopal ...	595	...	595	
Gwalior ...	3,913	...	3,913	
Indore ...	765	...	765	
Kashmir ...	2,607	198	2,805	
Travancore ...	1,222	11	1,233	
Cochin ...	129	...	129	
Total ...	93,767	11,504	1,05,271	

* All societies are classed as "production and sale".

It is clear that the predominant type of organization is the credit society. This is in the natural course of things, considering the origin of the co-operative movement in India. Formerly, as Dr. Fay puts it, co-operators believed that the credit bank, inasmuch as it met the most pressing evil, must come first. This experience is, however, not unique for India. "In China, as in Germany," Prof. R. H. Tawney observes in his *Land and Labour in China*, "the movement began with the object of making credit available for agriculture at equitable rates, and hitherto (1931) it has been almost wholly concerned with that side of the farmers' life." It was only years later, under the stress of a devastating invasion and under the inspiration of the nation's leaders, that the movement assumed diverse forms. In recent years, in India too, there has been a drive in some provinces to organize non-credit institutions for diverse purposes, but this has been mostly under official auspices. "The new emphasis," as Dr. Fay observes, "is everywhere on co-ordination, not indeed on the undifferentiated society but on the association of finance with trade, supply and marketing, on a credit central which has the whole position of the borrower under review, long term as well as short term." It is now nearly fifteen years since the Royal Commission on Agriculture in India enunciated the view that co-operative credit did not stand by itself but should form part of a comprehensive scheme of rural development. But it was not until the economic depression laid bare the intrinsic instability of the rural credit structure that the idea of "integrated co-operation"—as Dr. Fay phrases it—gained recognition. Even now, though lip service is paid to the essential soundness of this basic idea, the practical steps taken to implement it are not reflected in any increase in the volume of sale or supply transactions in most of the provinces.

It is true that it will be unwise for co-operators, in their enthusiasm, to start new trading organizations or to get village co-operative credit societies to convert themselves into multi-purpose societies. It is, however, over five years since the Registrars of various provinces, assembled in a conference, decided to systematize the arrangements for

credit and to link them up with marketing.[5] Except in some parts of the Province of Madras, no progress has been made in implementing this recommendation. Recently, in Bombay, the Co-operative Department has approved of the proposal to allow agricultural credit and multi-purpose societies to stock the produce of their members and to grant small advances against such produce, pending its sale. This is possible, however, only where suitable arrangements for the grant of accommodation against the stocked produce can be made with a central financing agency. Societies which are permitted to do this business can well function as collecting units for sale societies or unions situated at local market-places. But this form of development postulates management by a competent personnel, under proper supervision and guidance. Even if there is the recognition of this fundamental feature of rural credit organization in India, namely, the basing of credit on sale and supply, it may be that the additional functions cannot suitably be undertaken in the absence of a number of persons with the capacity, the training and the leisure to perform the additional duties. From the point of view of large-sized or small-sized co-operative trading organizations, no single factor—not even the lack of warehousing arrangements in rural areas—acts as a brake on progress in this direction as the absence of qualified reliable persons to be put in charge of the operations. Further progress on a large scale is hence possible only when this need is met by providing for the training of large numbers of educated persons, in rural areas, in the practical aspects of the work of supply and marketing.

Other aspects of agricultural organization must also claim attention. If a rural credit society—a village bank—undertakes work such as the propagation of improved seed or the popularizing of improved methods of cultivation, well and good. If not, there are agencies like development associations or better-farming societies that may organize it.

[5] "The Conference considers the linking of credit and marketing wherever possible to be of great importance and suggests that the note submitted by the Registrar, Madras, be examined carefully in each province with a view to the introduction of a similar scheme adapted to local conditions."

That is the case already in some parts of the country. But even the introduction of better-farming methods is, to a certain extent, interlinked with the function of credit. The scope for a progressive agriculture is immense, but there is an absence of planning—except here and there—and a want of programmes that are to be worked up to in a stated period of time, through organizations of agriculturists themselves.

This observation also holds good about another aspect of rural economic life. Without entering into any discussion about the place of rural industries in economic planning, one can well assert that there are a number of industries that have more than a fair chance of revival if buttressed by some suitable form of organization for credit, supply, marketing and technical improvement. One form of organization may be the co-operative producers' society; and in some provinces, praiseworthy attempts have been made in that direction. Here too, the attempts are often haphazard and spasmodic and do not form part of a well-designed programme of industrial development.

There have been still fewer attempts at joint farming, colonization of lands on co-operative lines, or collective cultivation of lands. The biggest of these experiments is that undertaken in Burma.[6] There is undoubtedly scope for action in this direction, and the success of the experiment conducted by the late Sir Daniel Hamilton at Gosaba in the Sunderbans amply bears out such a view. If the co-operative method—applied for diverse purposes as at Gosaba—is helpful in bringing about an improvement in the economic condition of the peasantry, co-operators should welcome its adoption, even though the initial impulse may be from outside and the control may be of the paternal type.

Inefficiency of Management.

This criticism is directed, presuambly, to agricultural credit societies in particular. It is reflected in the high proportion of arrears, in the demand for coercive measures, and in the fact that the credit arrangements still continue to be

[6] *Reserve Bank of India Bulletin*: "Sittang Co-operative Colonies."

somewhat unregulated. When making this criticism, one should not, however, overlook certain features of rural life in India responsible for the deficiency. In the first place, the movement has been organized among a population predominantly illiterate. One need not embark here on an academic discussion whether a literate person is necessarily better equipped to improve the agricultural or other industry that he pursues. But we have to consider whether, for purposes of economic organization on the basis of democratic control, illiteracy cannot be a stumbling-block. Intelligent participation in the affairs of even the simplest form of co-operative organization calls for some intellectual effort, some attention to procedure, rules and accounts. It is difficult to imagine that, for this purpose, a knowledge of letters will not be helpful, to say the least. An illiterate member of a society and especially of its managing committee is ill-fitted to shoulder responsibility for the running of an institution which is supposed to entrust the control of credit to a democratic institution.

The next handicap is the prevalence of a state of deficit economy among large masses of our agricultural population from which is drawn the bulk of the membership of agricultural credit societies. Co-operative credit, in the country of its origin, was based on the practice of thrift. The prevalence of constant deficits in our rural economy is hardly conducive to the practice of thrift. It is by the practice of thrift that societies in Germany built up their owned capital which more than any other factor developed a sense of responsibility. The place of these local savings accumulated in the village bank cannot be taken either by the adoption of unlimited liability or by the building up of reserve funds through the expedient of keeping a wide margin between the borrowing and lending rates of interest. Experience shows that, in general, the standard of management is higher where members have accumulated, to a large extent, their owned capital, principally in the shape of shares and deposits. Elsewhere, co-operation is often construed as a facile way of borrowing funds from a distinct source, identified or associated with Government. Neither the managing committees nor the general body of

members feel, very often, any direct responsibility for attending to the proper utilization or the punctual repayment of these outside funds.

It has to be observed here that the growing tendency to vest the control of credit virtually in an outside authority such as the supervising union or the central financing agency or the Co-operative Department—and only nominally in the managing committees and much less in the general body of members—is partially responsible for engendering a feeling of indifference. In many parts of India, even the Secretary is not an office-bearer responsible to the local committee and the general body of members, but derives his authority and owes allegiance to a central agency, the control exercised by which over his work cannot be an effective substitute for local control. It may be urged that the unsatisfactory features of the situation have themselves demanded intervention by some outside authority. In that event, however, it is the outside authority that deserves to be blamed for acts of omission and commission and not the local management or the local unit. Without apportioning blame, as a general proposition it may be observed that even if supervision by an external body is deemed inevitable, that supervising agency shoud aim, through advice and persuasion, at getting the local unit to perform its duties efficiently, rather than attempt to take over the duties itself in the interest of efficiency.

Laxity in Supervision and Control.

That leads us to the last among the principal grounds for criticism. Supervision by an outside agency, experience has borne out time and again in India and elsewhere, can never replace control from within. As the late Mr. Henry W. Wolff aptly summed up, "it is this local society the single brick in the bottom layer upon which the intended fabric is to rest which makes for the safety of the organization." The strength which is lacking in the primary unit can be supplied only partially—if at all—by supervision from without. That is, however, what has been attempted in India, all throughout these last thirty years and over. In different provinces and at different periods, various methods of supervision and inspection have been employed, ranging

from absence of control, control by pure federal bodies, control by central financing agencies and control by the Co-operative Department. Even the closest student of the history of co-operation will find it difficult to declare that success has attended any single one among these methods.

In the Raiffeisen organization, as it used to be known, there was enough talent and capacity available to provide the personnel for supervising boards in primary societies themselves. Lacking this talent and capacity in the primary unit, co-operators have sought to fill the gap by grouping together the units and trying to pick out leaders out of the group for the work of mutual supervision. There is precious little, however, of mutual supervision left in the supervising unions of Madras and Bombay, the only two provinces where this particular recommendation of the Maclagan Committee about the creation of local unions for supervision and control has been earnestly pursued. It is not all village societies that can command the services of capable and, withal, disinterested leaders. When such leaders are available, it is a question whether it is better to utilize their services as fully as possible in their own villages for the development of co-operation in its manifold forms, or to impose on them responsibility for the work of federal agencies. The extent to which, with the education and training they have had, they can ordinarily be expected to aid effectively in the management of higher grades of co-operative institutions is, unfortunately, limited. Hence, too much should not be expected of federal organizations for supervision in the present state of our educational development and the growth of the sense of civic responsibility.

The defects that are noticed in the taluk or tehsil units are sometimes sought to be remedied by the creation of bodies with a still wider area of operations such as a district, with the result that either the defects make their appearance in an accentuated form or the responsibility for administration is virtually transferred to the central financing agency as in Madras, or to the Co-operative Department as in Bombay, without responsibility being fully assumed by these outside agencies. It is this inherent weakness in the scheme of supervision that has led to slackness and ineffici-

ency. The remedy is to separate from the function of supervision, as conducted by purely federal bodies, certain powers the exercise of which should, in the interest of efficiency, be transferred to agencies that can wield them in a more responsible manner. Financial control should vest in the financial agencies which are responsible for the sound administration of funds entrusted to them by share-holders and depositors. Similarly, the control of audit should vest in the Co-operative Department which is ultimately responsible, under the law, for its proper conduct. The functions of a supervising agency would then be confined to general guidance, education, propaganda and training.[7] The Co-operative Department should not attempt to exercise control both from without, under the statutory authority enjoyed by them, and from within through unions conducted virtually under their directions. That is not a happy position for co-operators to work under. Besides, it fails to evoke a sense of responsibility and solidarity. Lastly, in view of the close association of supervision and audit, it weakens, to a certain extent, the effectiveness of the influence exercised by an impartial audit.

Is the record of central financing agencies and the Co-operative Department without a blemish? There are provinces where, at some stage of development, all progress depended on the one or the other. Where both or either transgressed their own legitimate province and attempted to set the pace of progress and direct activities, they have courted failure. Where both these have confined their energies to their own legitimate field, though progress may not

[7] Vide *Joint Reorganization Report Submitted to the Government of Bombay* (1937): "The Supervisor should see that the requisite books and registers are properly maintained and kept up-to-date. He should see that irregularities and discrepancies pointed out in the latest audit and inspection reports are attended to and rectified and that the orders or suggestions made by departmental officers, the financing agency or the District Board of Supervising Unions are carried out. While the duty of audit rests primarily with the Auditor and that of financial inspection will ordinarily rest with the staff of the financing agency, the Supervisor should carry out at his inspection such primary audit as is necessary for the proper performance of the duties attached to him.

have been striking, results from the point of view of efficiency of administration have not been unsatisfactory. As an illustration may be cited the general efficiency of Government audit and of inspection by financing agencies in Bombay. The dishonesty and corruption that are complained of in some other provinces are not so common in this Province among the staff of these two agencies and are less rife among the office-bearers even of the rural primary units than elsewhere in India. That may be due to the fact that the field of effort for different agencies is strictly defined and delimited and that each is in a position to check the doings of the other. The aggregate cost of the supervising and controlling machinery is, however, high, and it is a question whether the arrangements do not breed friction, apart from their representing, in several respects, duplication of effort. In fact, there is, as Dr. Fay remarks, an over-elaboration of the superior organization in several parts of India without any obvious compensating advantages in the shape of all-round efficiency and well-planned progressive action. In the earlier stages, again, there was too much of amateurishness in the efforts of the various agencies for supervision and control, too much also of uninformed enthusiasm. There may have been some arrangements for training in co-operative principles and practice; there was too little, however, of training in rural economics and banking. To their cost, co-operators have found that they cannot afford to remain ignorant of the canons of banking or of the basic facts of rural economic life.

LOANS AND THEIR CLASSIFICATION

BY

MR. APPA RAO, M.A.

Land-Mortgage Banks are intended generally for helping the cultivators in the improvement of their lands. In Madras it happened otherwise, because almost all the funds were utilised for the discharge of prior debts of agriculturists.

(A) *According to Purpose.*

In the beginning, the by-laws of the primary banks empowered them, to extend loans for the redemption of mortgages and for improvements of land and methods of cultivation. Later on, the scope was extended to give loans for discharge of other debts not secured by mortgages, and for the purchase of land in special cases to enable ryots to round off holdings. So far, the loans given were for discharge of prior debts and redemption of mortgages. The remaining two purposes are still in the realm of pious hopes. As observed already, the cultivator must first be rid of the burden of debt hanging heavily upon him, before he can think of effecting improvements in his cultivation. It is but natural therefore, that the discharge of prior debts should have precedence over others. But somehow, in Madras Presidency, all the loans given are for the liquidation of prior indebtedness only, whereas in Bombay, the Punjab, and Assam loans for improvements and land purchase occasionally find a place.[1] Even in America, nearly 80% of the loans given by land banks are for the discharge of prior debts. In the initial stages it is bound to be so. When people gain experience regarding the advantage of long

[1] Improvements of land loans issued by the Jhang Co-operative Land Mortgage Bank (Punjab) amounted to Rs. 1,34,350 by 31st July, 1931. Out of 156 loans issued by Land Mortgage Banks in Bombay up to 30-9-36 12 loans were for land improvement and 3 for land purchase.—K. D. Kothari's article (Accountant, Bombay C. L. M. B.)

term loans through land mortgage banks, they will be more forward in utilising such loans for land improvements.

It is very interesting to analyse the composition of debts refinanced by land mortgage banks. It is very difficult to get this information for debts in general. Thanks are due to the land mortgage banks for obtaining and maintaining a record of such information which is of great value in studying problems of indebtedness. Thanks are specially due to the departmental authorities for having given access to their manuscript records wherein this information is given.[2]

The information given, relates to a total amount of about 41 lakhs forming $\frac{1}{4}$ of the total loan amount disbursed. The amount is sufficiently large to give us a fair idea of the composition of indebtedness. A detailed tabular form giving the various purposes for which the prior debts were incurred and their percentage composition is given at the end.

Below is given a summary tabular form for the northern and southern districts separately and for the Presidency as a whole.

Purpose.	N. Districts.	S. Districts.	Madras Presidency
Prior debts	41·6	18·7	30·2
Land purchase	15·4	20·3	17·9
Domestic expenditure ...	14·1	18·7	16·4
Marriages	7·2	14·2	10·7
Land Improvements	7·6	11·0	9·3
Cultivation	2·9	2·4	2·7
Education	2·5	2·0	2·3
Cattle	2·4	1·1	1·8
Houses	1·8	1·8	1·8
Litigation	1·0	4·1	2·6
Trade	0·8	1·2	1·2
Kist	1·0	0·8	0·9
Famine	0·2	0·1	0·2
Medicine	...	...	...
Miscellaneous	1·3	4·1	2·7

[2] Annual Inspection Notes of the Primary Banks by the Deputy Registrars (for Land Mortgage Banks).

The above figures are arranged in the descending order. As expected, prior debts top the list. As a matter of fact, these prior debts also have still further to be analysed. But it is almost impossible to get such information, for, there may be history of generations behind it. Perhaps they may also reveal the same nature as to be found in the composition of the rest of the debt incurred mostly in the present generation. Somehow, we find that the percentage of prior debt in northern districts is much higher than in the southern districts, the respective percentages being 41·6 and 18·7.

Next in order comes land purchases, the percentage being 17·9. One of the objects of land mortgage banks is indirectly fulfilled by refinancing debts contracted for purchase of land. In a way the same remark can be made as regards land improvement (9·3%). It does not make much of a difference whether loans are given for refinancing debts incurred for land purchase and land improvements or for financing them directly by land mortgage bank itself. In a way, it is better that such a direct help is given, for, it will enable the bank to examine the nature of such investments. Later on, it will be discussed how a co-ordination can be brought about between land mortgage bank and the departments of agriculture and industries in the encouragement of such loans.

The next two big items form, as it were, the crux of the problem of indebtedness, namely domestic expenses and marriage expenses, their percentages being respectively 16·4 and 10·7, making up a total of 27·1. If the prior debts also are redistributed in the same manner as the composition of other debts the total comes up to 38·6%.[3] It means that about 40% of the debt incurred is to meet the necessary domestic expenses of marriage expenses. Even though marriage expenses may be reduced to a somewhat lower proportion, the necessary domestic expenditure must be met. Evidently the income of the cultivator is not sufficient to meet the usual domestic expenditure and it is

[3] Prior debts form 30·2 per cent. Out of the remaining 70 their proportion is 27. For 30 it would be $27/70 \times 30 = 11·5$. The total is 27·1 plus 11·5, *i.e.*, 38·6.

why he has to run into constant debt. Even then, the members of the family do not have sufficient food to maintain normal health. "In many parts of the country" observes the *Indian Information*, "a considerable proportion of the population did not get enough to eat. Here the emphasis must be largely in increasing yields of primary food stuffs. "Enough food" took precedence over the right sort of food."[4] Herein lies the rural problem. The land mortgage banks, by themselves, cannot be expected to help those who need help. Under such circumstances the cultivator cannot be expected to spend any appreciable amount on education and medicine, items which we find in the tabular form.

In some districts people seemed to have realised the importance of education and run into debts for educating their children. East Godavari has to its credit 10% of the debt incurred on this score. A striking instance of the heavy investment made on education is to be found in the case of the members of the Alamuru Bank where the debt incurred for the purpose amounted to Rs. 62,283, bearing a percentage of 50·5. The figure for the Kovvur Bank in West Godavari indicates a high percentage (16·8) on investment for educational purposes. Coming to the South, Tinnevelly District records a percentage of 6·3, the first place being taken by the Ambasamudram Bank, where the recorded figure is Rs. 13,270 with a percentage of 13·2. Though medicine is included as one of the items, for which debt is incurred, it appears as an almost negligible.

The debt incurred for the purchase of the cattle and for cultivation expenses bears a very small percentage (2·7 and 1·8).

(B) *Cultivator's Loans and non-cultivator's Loans.*

The loans given by the land mortgage banks can be classified also as cultivator's loans and non-cultivator's loans.[5] In the Presidency as a whole the amounts lent are

[4] *Indian Information*, January, 15, 1939, p. 7 ff.

[5] This information is obtained from the Annual Inspection Notes of the Deputy Registrars for Land Mortgage Banks.

in the proportion of about 70 to 30. Tabular forms showing the percentages in various districts are given below.

Tabular form showing the distribution of loans to cultivators and non-cultivators in the Northern Districts.

Name of the District.	Total		Cultivators,		Non-cultivators	
	No. of Loans	Amount Rs.	No. of Loans	Amount Rs.	No. of Loans	Amount Rs.
Vizagapatam	455	5,01,037	361	3,14,037	94	1,87,000
East Godavari	1353	25,41,817	854	17,25,056	499	8,16,761
West Godavari[6]	688	11,16,437	413	5,97,232	275	5,19,205
Kistna[7]	1160	14,86,305	1002	13,06,223	158	1,80,082
Guntur	468	7,01,195	385	5,83,940	83	1,17,255
Nellore	282	4,39,525	194	3,25,500	88	1,14,025
Chittor	106	1,35,822	97	1,25,922	9	9,900
Cudapah	75	97,064	57	66,449	18	30,615
Bellary	32	64,200	8	14,168	24	50,032
Anantapur	73		71	75,890	2	
Kurnool[8]	30	48,940	27	43,540	3	5,400

[6] Bhimavaram and Penugonda banks not included.

[7] Vuyyur bank not included.

[8] Kurnool bank not included.

Tabular form showing the distribution of loans to cultivators and non-cultivators in the Southern Districts.

Name of the District	Total		Cultivators		Non-cultivators.	
	No. of Loans	Amount Rs.	No. of Loans	Amount Rs.	No. of Loans	Amount Rs.
Chengleput[9]	374	5,81,422	319 85·3	4,99,872 93·4	55 14·7	81,550 6·6
North Arcot	550	7,64,733	594 95·3	7,34,108 99·2	26 4·7	30,625 0·8
South Arcot	294	4,90,054	237 80·6	4,09,354 85·5	457 19·4	80,700 14·5
Coimbatore	1220	27,89,062	1092	24,26,636 87·0	128	3,62,426 13·0
Salem	34	41,450	21	25,000 60·3	13	16,450 39·7
Tanjore	1198	22,31,863	630	11,17,908 50·1	568	11,13,955 49·9
Trichinopoly	311	7,41,135	165	3,98,750 53·8	146	3,42,385 46·2
Madura	338	7,04,920	164	2,74,845 39·0	174	4,30,075
Tinnevelly	147	2,84,200	78	1,57,190 55·3	69	1,27,010 44·7
Ramnad	82	1,19,695	15	13,410 11·2	67	1,06,285 88·8

It is to be remembered that the land mortgage bank issues loans only to those who have got permanent alienable occupancy rights in lands offered for security. But the borrowers need not necessarily be self-cultivators. According to the Land Mortgage Banks Act of 1934, lands offered for security cannot be leased out for more than a five year period at any time during the currency of the loan. In America according to the original Farm Loan Act, loans

[9] Conjeevaram not included.

were restricted to owner-operators of farms, but during the depression, the provisions relating to eligibility for loans were modified and since then, loans are being issued even to non-operators provided they derive the principal portion of their incomes from farming operations.[10] The Madras land mortgage banks unconditionally grant loans to non-cultivators. Loans to non-cultivating land owners need not be condemned altogether. Sometimes we can expect more intelligent direction from them. But such a thing is possible in case they take personal interest in their lands and supervise them. It seems desirable that mere absentee-landlordism should not be encouraged. A professional man living in a town but owning landed property should not be allowed to come into competition with actual cultivators in their claims for loans from the land mortgage banks.

Though the loans given to non-cultivating land-owners form 30% on the whole, we find, some how, in districts like Ramnad, Madura and Tanjore in the south and Bellary and West Godavary in the north, the percentage goes much higher. Strangely in Ramnad district, the percentage goes up to 88·8 and in Bellary up to 78. Such a preponderance of non-cultivator's loans may be due to various causes. A greater proportion of applications for loans must have come from non-cultivating land-owners. Generally they are literate and some of them might be professional people. As such, they know how to transact business independently. They can more easily fulfil the conditions required by land mortgage bank for the grant of loans. At times, influence may play its own part. It might be that their repaying capacity may be of a better order. As observed already loans for non-cultivating land-owners need not be ruled out. But care should be taken to see that they take a genuine interest in the improvement of their lands. Especially in the case of improvement loans, they may be forward in introducing better methods of production, and the pioneer work done by such people, will be an inspiration for others.

[10] Page 18:—Agricultural Credit under the Federal Government (Chamber of Commerce of the U. S. Washington D. C., November, 1936).

(C) *According to size.*

Below is given a table showing the number of loans issued up to the end of 1937-38,—and their sizes.

No. of Loans.	Amounts.
2807	Rs. 1000 to 2000
2048	„ 500 to 1000
1369	„ 2000 to 3000
766	below Rs. 500
754	Rs. 3000 to 4000
650	„ 5000 to 6000
425	„ 4000 to 5000
30	„ 6000 to 7000
20	„ 7000 to 8000
11	„ 8000 to 9000
10	„ 9000 to 10000
36	„ 10,000

The maximum number is to be found in the medium loan of Rs. 1000 to 2000. Originally the maximum limit prescribed for an individual borrower was Rs. 5000. In 1936-37 it was increased to Rs. 10,000 in cases where the banks developed transactions amounting to a lakh of rupees.

The land mortgage bank must really help the average cultivator. The big land owner can easily raise credit for himself at a reasonable rate of interest. He should not be allowed to compete with the small and medium cultivators. Co-operation or competition is said to be wholesome only if it is amongst equals. In Bombay, the maximum amount loanable to an individual is as high as Rs. 25000. In the Punjab the original maximum limit of Rs. 10,000 was by steps brought down to Rs. 4000 because of higher percentage of defaults in case of larger loans. It is better, that the land mortgage banks concentrate more upon the average farmer, and serve a greater number of agriculturists, than utilize their limited resources on a few big loans.

Tabular form showing the various purposes for which the debts were incurred and their percentage composition.

Name of the District.	Total debt figures	Prior debts.	Land purchase.	Land improvement.	Cattle purchase.	Cultivation expenses.	Kist.	Domestic expenses.	Marriages.	Education.	Medicine	Houses	Trade	Litigation	Famine	Miscellaneous.
Ramnad ...	17,250	...	26·6	1·2	0·9	1·2	...	17·7	12·7	3·5	...	...	...	8·1	...	24·5
Chingleput ...	1,46,530	14·8	30·7	8·5	3·7	2·2	2·3	17·8	13·1	0·4	...	2·6	2·4	2·1	...	...
South Arcot ...	2,00,709	29·9	26·4	4·8	...	0·1	2·3	22·2	8·2	0·4	...	1·2	..	0·2	...	3·8
Tanjore ...	5,77,869	33·6	14·8	5·1	1·3	0·4	1·9	12·7	16·5	3·2	0·2	0·4	2·5	4·1	1·3	2·1
Tinnevelly ...	1,64,863	12·7	34·9	3·7	0·1	0·8	...	6·0	23·7	6·3	0·4	8·4	2·3	0·6	...	...
North Arcot ...	39,621	3·7	6·9	4·1	...	0·7	...	18·2	7·7	0·6	...	3·4	3·4	21·2	...	...
Trichinopoly ...	63,202	32·9	8·4	10·1	0·3	0·8	0·3	32·3	16·2	...	...	...	...	0·2	...	...
Madura ...	43,300	16·8	6·7	14·2	1·2	0·7	0·2	37·4	19·1	...	...	...	...	...	...	3·6
Coimbatore ...	4,29,766	23·8	27·4	17·1	2·4	8·3	...	3·6	10·3	3·6	...	...	...	0·8	...	2·7
Vizagapatam ...	1,30,396	36·8	13·6	18·7	0·7	1·9	0·6	19·3	5·9	...	...	1·4	0·4	0·6	...	...
East Godavari ...	6,72,907	48·1	14·8	4·5	1·1	5·9	1·4	6·7	4·6	10·0	...	...	1·2	0·1	...	1·4
West Godavari ...	5,42,174	37·4	15·5	6·1	3·3	2·7	2·3	8·2	13·0	3·7	...	3·4	0·4	0·4	1·1	1·3
Kistna ...	4,19,751	38·8	21·5	12·8	1·6	2·6	0·4	9·1	9·0	0·3	...	1·7	0·2	0·4	..	1·2
Guntur ...	1,76,255	38·9	15·9	2·3	1·6	3·6	0·2	19·0	8·6	2·5	0·1	0·8	0·7	0·9	...	4·6
Nellore ...	1,20,809	46·0	17·6	0·6	3·0	0·5	1·7	21·8	5·5	0·6	..	4·2	...	0·2	...	...
Ceded Districts ...	3,04,931	45·1	9·2	7·9	5·5	3·2	0·4	14·4	6·1	0·5	0·3	1·4	2·8	4·6	...	0·4

LOCAL TERMINAL TAXATION

BY

DR. GYAN CHAND.

Since 1916 there has taken place a development in the sphere of local finance in India the importance of which has not been appreciated by the students of finance and financial administrative authorities. The development is the levy of terminal taxation as an important source of revenue for the local authorities. Local terminal taxation has now acquired an assured place in the financial economy of the four provinces in which indirect taxation is the mainstay of local finance—*i.e.*, Bombay, United Provinces, Punjab and Central Provinces—and its relative importance has been and is growing. It is necessary to review the present position in order to understand its implications.

A brief reference to the history of local terminal taxes is necessary if the reasons why and how the present position has been attained are to be understood. The students of Indian finance know that the Town and Transit Duties were widely levied in India until the end of the second quarter of the 19th century and were repealed because experience had shown that there was no prospect of reforming them, *i.e.*, of getting rid of those features of theirs which made their administration so vexatious and their incidence so onerous and unfair. Sir Charles Trevelyan, who investigated the working of these duties, condemned them as "the remains of barbarous system of universal taxation" and pointed out how difficult it was to administer the system of refunds and, therefore, to free through trade and local manufactures from the hardships which the town and transit duties inevitably inflicted upon them. But the point which, in his opinion, was most conclusive reason for their abolition was that the agency employed for the collection of these duties was as

ill paid as it was corrupt and could not be improved without making their cost of collection prohibitive. In his view the effect of the machinery was even more pernicious than that of the taxes themselves and the only way to remove these impediments to the growth of internal trade and put an end to the numerous and heavy exactions to which it had to submit was to abolish all Town and Transit Duties. These duties were abolished in Northern India in 1836 and in Bombay and Madras in 1844.

The revival of these duties in the early sixities under the name of Octroi was confined to the four provinces referred to above in which the local authorities still rely upon indirect taxation as their main source of revenue. It is not clear from the available evidence as to why the internal customs were reintroduced and in these four provinces only. It fell to Sir Charles Trevelyan again to state clearly and with great force the sinister possibilities of the revival of Octroi in a resolution issued by the Government of India in 1864[1] in which it was laid down that the tax should be levied only on 'a few articles of local consumption,—which do not enter into the general trade of the country and which being recognizable at first sight do not involve the stoppage and search of other commodities.' The Government of India issued detailed rules and orders to enforce their intention, but the Government of the Punjab and United Provinces (then the N.W.P.) tried to circumvent them by introducing what was called 'the compromise system' or the 'reduced rate system' which in effect was a system of terminal taxation—a system of light duties on all articles without refunds. This 'compromise' was adopted to escape the inconveniences of providing bonded warehouses and making refunds, but the Government of India expressed their strong disapproval of the system in three

[1] (a) Government of India, Home Department. Letter No. 2--100, dated September 28, 1877.

(b) Government of India, Home, Revenue and Agricultural Departments, Resolution No. 2—101—115, dated November 4, 1880.

(c) Government of India Home, Revenue and Agricultural Departments, Letter No. 82, dated May 16, 1881.

successive[2] resolutions and suggested measures for preventing the Octroi Duties from operating as transit duties. The standards of consumption of dutiable articles were laid down and provision of bonded warehouses, refunds and free passage system insisted upon. The fresh instructions did not improve the situation materially, and in 1899 the Government of India admitted the ineffectiveness of these provisions but justified the continuance of a system, which the experience of nearly four decades had shown to be extremely unsatisfactory, by falling back upon the convenient view that 'in imposing taxation in this country it is more necessary to consider the prejudices of the people than the strict theories of taxation.' But in the provinces other than the four 'prejudices of the people' were no obstacle to the imposing of the direct local taxes and the strict theories of taxation 'were considered' and practised without any dire consequences.

These facile and misleading assumptions made it possible for the Government to take the next step in the development of indirect local taxation by not only acquiescing in but also approving the reintroduction of 'the compromise system' of the eighties in their resolution of 1915, *i.e.*, local terminal taxation without refunds. This step was taken by the Government of India because the Municipal Taxation Committee in the U.P., recommended the abolition of Octroi on the ground of its irremediable administrative abuses and its replacement by Terminal Taxes. The Committee admitted that the change would involve taxation of through trade by local authorities; but this, according to the Committee, was not an unduly heavy price for the reform of the system of local taxation, *i.e.*, of its administrative abuses. The Government of India were at first disposed to treat the introduction of local terminal taxation as a transitional measure for the developing direct

[2] (*a*) Government of India, Education Department, Resolution Nos. 55—71, dated April 28, 1915.

(*b*) Memorandum of Principles Governing the Imposition and Collection of Terminal Taxes in India. Government of India (Education Department), letter No. 77, dated July, 1917.

local taxation, and in the resolution of 1915 they approved of the substitution of terminal taxes for Octroi 'with a view to pave the way of the eventual abolition of all indirect local taxes; but two years later they accepted the view pressed upon them by the Provincial Governments that terminal taxation was to be regarded as a permanent improvement upon Octroi in the field of local taxation and empowered municipalities to tax all local imports and exports.

Under the orders of 1915 and 1917[3] was started the process of substitution of terminal taxation for Octroi which has continued since then though for some years there has been slackening of the pace at which substitution has occurred. The significant point, however, is that the Government of India practically exercise no control over local terminal taxation, and even the control exercised by the Provincial Governments is not effective enough to ensure that general interests will not be sacrificed for local interests. Under the Act of 1919 introduction of terminal taxation by municipalities which were *not* levying Octroi prior to 1917[4] required the sanction of the Government of India, but even in their case once the sanction had been granted, central control ceased altogether. Of course, the municipalities which were already levying Octroi, could change over to terminal taxation with the permission of the Provincial Government. In 1922[5] even the slight control exercised by the Central Government was practically withdrawn and the Provinces had acquired complete autonomy in the introduction and development of terminal taxes. Under the Act of 1935 terminal taxation is included in the list of taxes to be levied by the Central Government for the benefit of the

[3] *The U.P. Municipal Taxation Enquiry Committee Report*, 1909, p. 25.

[4] Item 8, Schedule II, The Devolution Rules, the Government of India Act, 1919.

[5] Under Section 66, C.P. Act No. 11 of 1922 the Government of India waived their right to have proposals for the introduction of terminal taxes submitted to them; and as the C. P. could not be given an exclusive privilege, this concession was in practice generalized.

Provinces,[6] but the provision does not limit the powers of the Provincial Governments to levy and develop local terminal taxes and, as a matter of fact, powers of the Provinces to impose the latter have not been in any way impaired by the provisions referred to above. Now that the Act of 1935 has become defunct its provisions are not worth worrying about, but their confusion in regard to terminal taxation is an instance, though not the only instance, of the extremely careless way in which the financial provisions of the Act were drawn up.

The position now is that municipalities are levying terminal taxes with the permission of their respective Provincial Governments and these taxes are also being levied by small towns in the Punjab and District Councils in C. P. The following table indicates the growing importance of local terminal taxation in the four Provinces of Bombay, U.P., the Punjab and C.P.

[6] Section 137, The Government of India Act, 1935.

		No. of Towns levying Octroi			No. of Towns levying terminal taxes			Total receipts from Octroi and terminal taxes			Total receipts from Octroi		
		1920-21	1929-30	1937-38	1920-21	1929-30	1937-38	1920-21	1929-30	1937-38	1920-21	1929-30	1937-38
Bombay	...	102	76	76	12	50	55	39·64	66·13	69·14	30·32	30·11	31·81
U. P.	...	29	40	45	11	20	20	41·26	66·43	76·66	30·91	35·77	39·03
Punjab	...	91	76	61	9	27	55	61·64	66·47	79·50	55·91	31·58	22·44
C. P.	...	20	16	16	11	30	32	14·41	27·01	24·12	11·81	9·25	8·61
India	...	242	208	198	43	127	162	156·95	226·04	249·42	128·95	106·71	101·89

	Total receipts from T. T.			Proportion of T.T. receipts to total receipt from Octroi & T.T.		
	1920-21	1929-30	1937-38	1920-21	1929-30	1937-38
Bomby ...	9·32	36·02	37·33	23	55	54
U. P. ...	10·35	30·66	37·63	25	46	49
Punjab ...	5·13	37·89	57·05	9	54	72
C. P. ...	2·60	17·82	15·52	9	66	64
India ...	27·40	122·39	147·53	18	54	59

The above figures do not include the receipts from Town Duties in Bombay City and from terminal taxes levied by the small towns in the Punjab and by the District Councils in the Central Provinces, but they give a fair idea of the development of local terminal taxation and its relative position. From 1920-21 to 1929-30 in all the four Provinces substitution of Terminal Taxation for Octroi proceeded rapidly and its receipts increased from less than one-eighth of the total receipts from indirect taxation to over one-half. Since 1929-30 the process has slowed down considerably in three of the four Provinces and in the U.P., where it was first initiated, the view has been officially accepted that its utility has exhausted itself. In the Punjab Terminal Taxation is still gaining ground, but in the other three provinces also terminal taxes are the principal source of revenue in most of the important cities.

After the war financial reconstruction of the country as an integral part of the political and economic reconstruction will have to be undertaken. Local Finance will necessarily have an important place in any scheme of financial reconstruction, and among the problems, which will have to be tackled, will be the re-assessment of the utility of indirect taxation as a source of local revenue. Octroi still remains an important local tax in India, but our experience of over a century and, of course, of all other countries has made it abundantly clear that its employment in local finance is extremely objectionable, and it is, as Bastable put it, 'certain to disappear under the influence of sounder ideas on the subject of taxation.' In India there has been no lack of

sound ideas on this subject. Ever since 1834, the year in which Sir Charles Trevelyan submitted his report, the objectionable nature of Octroi has been repeatedly reaffirmed in an authoritative manner. Local Terminal Taxation has been imposed and developed on the assumption that the evils of Octroi are irremediable and terminal taxes as a form of taxation on consumption are free from some of the grosser defects of Octroi. Administrative abuses of the latter were urged as the strongest reason for the abolition of Town duties in the forties of the last century and account for its progressive replacement by terminal taxation since the issue of the Memorandum of 1917.

Terminal taxes being a system of light duties on consumption without refunds, which are collected largely by the railway authorities, do simplify the administrative problem. The necessity of employing ill-paid, poorly-qualified agency of collection armed with power of vexatious interference is thereby obviated and the consequent inevitable corruption avoided. The outstanding characteristics of these taxes are that they are not selective and do not involve the need for stoppage and search. The U.P. Municipal Taxation Committee while recommending the imposition of terminal taxation in place of Octroi emphasized this aspect of the matter. "The safety of the system," they said in Para 54 of their Report, "is in the universality of the tax." As stated already, all local imports and in some cases also exports are taxed, and as the duties are specific, the difficulties of appraisal and assessment do not arise and lucrative opportunities of using assessment as an occasion for exacting gratifications are not provided.

These administrative considerations cannot, however, be taken as conclusive. Imposition of terminal taxes may bring relief to local merchants and enable the local authorities to circumvent the problems which in practice they have found insoluble. But if terminal taxes are to be imposed by local authorities for their own benefit, it is essential that they should be subject to central control. The Taxation Enquiry Committee 1926[7] was of opinion that the Government

[7] *The Taxation Enquiry Report*, Vol. I, para 408.

of India should retain full measure of control over both octroi and terminal taxes. This control has disappeared and the superseded constitution of 1935 does not contain any provision for its introduction. It is assumed that the duties levied under terminal taxation will be light, but there is no safeguard against their being raised beyond what may be regarded as safe limits of local taxation. The Provincial Governments exercise control over the schedules of both terminal and octroi duties, but the control is known to be of a very rough and ready type and has in practice been ineffective. The range within which these duties vary is wide. Report of Marketing of Linseed in India give one instance of these variations. 'The octroi or terminal taxes' according to the Report, "payable on linseed in different towns and cities vary from a few pies per maund or a few annas per cart to as much as annas 2 per maund or Rs. 2 per cart." Similar variations are known to exist in the case of other commodities. Octroi is subject to refunds, but terminal taxes are not; and when the rates of the latter are high, they operate as burdensome transit duties and bring into play local factors with extra-local and, in some cases, extra-provincial repercussions. The need for central control of terminal taxation is implicit in the provision of the Act of 1935 referred to already; but as the provision does not involve circumscription of the powers of levying local terminal taxation, it is being levied and developed with reference to purely local conditions and by authorities with very limited understanding of their incidence and effects. These local taxes are in reality internal customs on through trade and their development is a matter of serious concern from the national standpoint.

The need for central control of these taxes is also evident for another reason. These taxes are collected mainly by the Railways. The administrative advantages of terminal taxes are realized because the Railways are used as a tax-collecting agency for local authority. But they, as Mr. Sim pointed out on their behalf in his evidence before the Taxation Enquiry Committee, "cannot be turned into a tax-collecting agency for local authorities if each one

develops its own scale and classification of goods."[8] Diversity in the scales of rates and the classification of goods cannot but have very disturbing effects on railway administration; and super-imposition of the terminal rates over the railway rates, if the former are drawn up without sufficient care and are subject to frequent variations, would upset the assumptions of the railway tariff schedules and introduce an incalculable factor in railway rate making. It is necessary that there should be central control of the rates and classification if Railways are to be used as a collecting agency for local terminal taxation.

Re-introduction of central control of octroi and terminal taxation would present serious political difficulties unless the line of political development which the country has adopted so far is completely reversed after the war; but experience of the control exercised by the Central Government over Octroi from 1864 to 1920 shows that even if such control can be exercised, it is very unlikely to produce the desired result, *i.e.*, prevent these local indirect taxes from degenerating into transit duties. But there is another consideration which has an important bearing on the replacement of octroi by the terminal taxes. Absence of provisions for refunds in terminal taxation may be an administrative advantage, but is based on the assumption that incidence of the tax is and cannot be local and its burden has necessarily to be shared between the inhabitant of the municipal areas in which it is levied and of the countryside served by them. This shifting of burden is a distinct advantage for the towns. They can pass on a part of their local tax burden to the rural areas and maintain or increase their local revenues at the expense of the people in the country. But about the inequity of this transference of tax burden and its extreme undesirability there can be no difference of opinion among the students of Indian Finance. In this country the agriculturist has, it is admitted, to carry much more than a fair share of his tax burden and any considerable addition to it for the benefit of urban population would be inequitable in the extreme and accentuate the regressive character of our

[8] *The Taxation Enquiry Report*, Vol. VII, p. 567.

tax system. Refunds of octroi, in spite of the difficulties of claiming and realising them, are fairly heavy, and if the tax is replaced by the terminal taxation and revenue receipts remain the same, the presumption is that a part of the tax burden which should be borne by towns has been shifted to the countryside.

In the case of ports like Bombay and Karachi the transference of tax burden from the local tax-payer to the people outside the ports in case of replacement of octroi by terminal taxation is, of course, obvious. Attempts of Bombay to replace the latter by the former have so far failed; but if they succeed, Bombay would be able to tax the whole country for the benefit of its local residents. Refunds of octroi in Bombay amount to nearly half of its total receipts, and its conversion into terminal tax without any loss of revenue would mean reduction of the burden of taxation on consumption of the local residents by half at the expense of the whole country. Karachi has already succeeded in substituting terminal tax for octroi. In 1920-21 Karachi realised Rs. 5·59 lacs from octroi, in 1928-29 Rs. 9·02 lacs from terminal tax and in 1937-38 Rs. 11·99 lacs. This port has been growing in importance and increase of its receipts is partly accounted for by its growing importance which is also the measure of its ability to levy terminal tax on the hinterland for which it is the outlet and inlet. The Timber Tax of Madras and the tax on Jute levied by the Calcutta Improvement Trust are also specific terminal taxes and are objectionable for the same reason. All local terminal taxes, general or specific, levied by the port are really custom duties and their imposition by the local authorities is a breach of the customs unity of the country.

All important inland cities are also important distributing centres and entrepôts of trade. Difference between them and the ports is only of degree and imposition of terminal taxation by them also involves taxation of non-residents by local authorities. For instance, if we take the four large inland municipalities, which have substituted terminal tax for octroi, we find that improvement in their finances and fiscal administration by this change have also been secured

by shifting a large proportion of their tax-burden to non-residents, mostly of rural habitat. The following table illustrates the point.

I Name of City	II Receipts from Octori in 1920-21 Rs. (lacs)	III Refunds in 1220-21 Rs. (lacs)	IV Proportion of III to V	V Receipts from in 1929-30 Rs. (lacs)	VI Terminal Tax in 1937-38 Rs. (lacs)
Lucknow ...	6·51	·93	15 p. c.	5·97	9·51
Lahore ...	12·54	2·47	20 p. c.	13·79	15·77
Amritsar ..	6·10	1·38	23 p. c.	8·81	8·10
Nagpur . .	4·82	1·18	24 p. c.	4·20	6·20

In 1920-21 out of total octroi revenue of Rs. 29·97 lacs refunds of these four municipalities amounted to Rs. 5·96 or over 17 per cent. In 1929-30 terminal taxes yielded them Rs. 32·77 lacs and in 1937-38 Rs. 39·58 lacs, *i.e.*, in a period of 17 years their unrefundable receipts from indirect taxation having increased nearly by 80 per cent; and even it is assumed that the proportion of re-exports remained about the same, their municipalities are taxing non-residents to the extent of nearly Rs. 7 lacs to 8 lacs. But the increase in terminal tax receipts is not only due to their increasing population but also to the increasing importance as commercial centres, and therefore the proportion of tax burden transferred to the people outside these towns is probably higher than 17 p.c. All municipal towns in India, large or small, are of commercial importance in varying degrees, and the levy of terminal taxation by them cannot but partly be taxation of transit trade for local purposes.

Imposition of terminal taxation is, however, not confined to municipal areas. Small towns and rural local authorities can also impose this tax with the permission of the Provincial Governments; and in a number of cases they are doing so. The District Councils in the C.P., for example, realised nearly a lac from terminal taxes in 1937-38, and in the Punjab small towns (notified areas) with a population from 1 to 2 thousand persons are levying this tax. If

terminal taxation becomes as popular with the rural local authorities, as it is with urban local authorities, revival of transit duties on an extensive scale will take place and cause the maximum amount of interference in the internal trade of the country.

The whole position, therefore, needs to be reconsidered. Terminal taxation may be convenient from the administrative standpoint but its extensive levy by local authorities is a matter of serious concern from national and fiscal standpoints and is sure to bring serious evils in its train. Local indirect taxation in India, as everywhere, is an anochronism; and after the abolition of octroi by Italy in 1932, India is the only important country where it exists and is even increasing in importance. The only right course to deal with the situation is to abolish local indirect taxation altogether and rely entirely upon the development of graduated property taxes, revenue from public utility enterprises and provincial assignments and subsidies for local purposes. But this raises the whole issue of the reorganization of local taxation which cannot be discussed in this paper. The obvious conclusion is that bad as is octroi as a form of local taxation, terminal taxation is worse and abolition of both must be an important object of reform of local taxation in this country.

A REVIEW OF MADRAS LOCAL FINANCE

BY

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In a great many respects India differs from the Western countries and one such is to be found in the evolution of political organisations in the country. This difference is made most glaringly visible by a comparison of the growth of political institutions in America, the most advanced of Western countries, with the growth of similar institutions in India. In the United States local authorities were generally the products of a process of devolution of powers by a superior organisation in the sovereign state; in India the local institutions have an ancient origin similar to the birth of political thought in the country. There have been times in the history of our land when there was no superior sovereign state as such in the modern sense of the term, but when local institutions were all the same functioning in limited areas, looking after the comforts and needs of the people. The antiquity of our village panchayat system for instance can be traced back to many hundreds of years. The influence they exercised in the governance of the country and in shaping the political, economic and social behaviour of the people under their jurisdiction was a strong and beneficent influence in those days. Local institutions prevailed throughout the length and breadth of the country even as late as the period of the Moghuls. With the coming of the British and the strengthening of the Central power, the influence, power and even the numbers of local units greatly dwindled. This was but inevitable in a period of transition, when the restoration of order and establishment of peace were considered to be of far greater importance than the preservation of ancient institutions. However, a need for the beneficial influence of local authorities came to be realised strongly and greater care was accordingly

bestowed towards nourishing such institutions as would lighten the burden of local administration and give some relief to the imperial treasury especially at a time when there were not at the centre enough efficient hands to man the affairs of the provinces. Hence under British rule, local institutions came to be formed in accordance with new geographical markings and the functions of these bodies were also outlined to suit the mode of political thought peculiar to the newcomers from Europe. The care of essential and special needs of the people which varied with individual localities gradually came to be entrusted according to differences in condition, to different local authorities. A steady progress in the growth of local institutions was maintained till the Constitution Act of 1919 which saw the firm and unhindered establishment of the local authorities we are now familiar with. The 1919 Act contained an outline of their functions and described the scope of their activity.

In this paper, an attempt is made to review the financial aspects of the local authorities of one of the major provinces of the country for a period of about 15 years from 1919. The scope of the paper is limited and in it an effort will be made to look into certain special aspects of the problem.

The term local boards is comprised of district boards, taluk boards, unions and panchayats but it is only the first two that are dealt with here. District boards and taluk boards wield the greatest local influence in administration and at the same time they admit of easy grouping and hence their work has been made the basis of the following study. In this paper certain special references are made about the district or the taluk boards for bringing out a few of the more prominent features of their financial policy; but where specific mention is not made, the treatment concerns both kinds of boards, grouped under the common term 'local boards.' Statistics given refer only to very recent years as no purpose will be served by a study of the earlier history of the problem.

The following table gives an idea of the total receipts and expenditure of the local authorities for about 15 years in order to show the trends towards increase or decrease of expenditure and revenue and of the relation between the

two. It will also help to show in a rough and general fashion whether the revenue side of the problem is elastic or not in its nature. The table further shows that there has been a growth in expenditure and revenue but that the growth of revenue has not kept pace with the growth of expenditure, for out of the accounts for 14 years tabulated below, the accounts for about 6 years show deficit. The rapid contraction of expenditure and revenue after 1929 is the effect of the depression and this proves how the finances of the local authorities also are adversely affected by cyclical fluctuations.

Statement showing total expenditure and receipts of the district and taluk boards in lakhs of rupees.

Year.	Total Expenditure.	Total Income.	Difference (Surplus or Deficit).
1920-21	283·37	246·24	−37·13
1921-22	281·25	254·95	−26·30
1922-23	317·79	319·43	+1·64
1923-24	327·12	351·09	+23·97
1924-25	335·27	334·04	−1·23
1925-26	374·51	383·54	+9·03
1926-27	412·75	413·82	+1·07
1927-28	456·10	459·51	+3·41
1928-29	517·41	517·49	+0·08
1929-30	...	...	...
1930-31	593·80	582·43	−11·37
1931-32	533·89	510·95	−22·94
1932-33	501·12	514·64	+13·52
1933-34	521·06	529·16	+8·10
1934-35	493·41	489·18	−4·23

The fact that expenditure has not contracted to the same extent as the fall in revenue, lends itself to the making of two inferences:

1. that the services on account of which expenditure is incurred are so important and vital that it is not possible to chop off a big portion of it even during times of necessity without depriving the population of certain important and essential services.
2. that the sources of revenue are so highly inelastic that whenever they are responsive it is not only detrimental to the finances of the local authorities but also inopportune; that is, at a time when a favourable response may be expected, only an adverse change occurs.

The conclusion from the above observations may be made that the sources of the revenues of the local authorities need considerable revision to make them not only sufficient to meet the growing expenditure but also elastic. But such a conclusion will not be not warranted until the expenditure and revenue sides are analysed in greater detail, and it is established by the analysis that no curtailment in expenditure is possible. Further, under the existing conditions, it is not within the competence of the authorities to secure any improvements in revenue. Hence a detailed examination of the expenditure and revenue sides is carried out in the following pages.

The table below gives a detailed account of the expenditure of the local authorities for a few years. The two largest items of expenditure are Education and Communications, while Public Health occupies only a place of minor importance. Water supply and drainage accounts and village development have been almost neglected; and this is regrettable. The items of expenditure may individually be considered and the nature of the local board services may be examined therefrom.

	1931-32	1932-33	1933-34	1934-35
I. General Account,				
1. Management ...	25·77	25·25	23·78	...
2. Communications	129·41	112·59	119·10	...
3. Education other than Elemetary	27·71	27·71	28·38	...
4. Public Health ...	33·62	31·23	29·98	...
5. Remunerative enterprises ...	5·57	4·40	28·3	...
6. Genl. taxation and Mis. revenue ...	...	...	...	...
7. Investments ...	4·87	7·47	1·94	...
II. Village Development Fund Account ...	2·79	3·85	2·58	...
III. Elementary Education Account	100·57	99·92	103·73	...
IV. Water Supply and Drainage Account ...	0·02	0·04	...	...
V. Town Planning Account (ordy. and capital) ...	0·02	0·13	...	...
VI. Railway Accounts Ordy. and Capital	50·05	54·40	53·02	...

EXPENDITURE

Communications continue to claim the largest share of the expenditure of the local boards, occupying nearly a fourth of total expenditure, ordinary and capital both inclusive, and being also slightly greater than a third of the expenditure on ordinary services. The only other item of expenditure which can be said to occupy an equally high place in the financial scheme of the district and taluk boards is Education—Elementary and other than Elementary. About a fifth of the expenditure on communications is consumed by the Engineering establishment; more than a fourth of it is spent on roads, fences and buildings; and minor items under this head are Rest Houses, Chowltries and Water-sheds. From an examination of the expenditure on communications one gains the impression that 'lighting' has not been a heavy burden. Much of the expenses on roads are devoted to the maintenance of roads rather than

to new construction. The following figures given in support of the statement show the percentage of amount spent on the maintenance of the first and second class roads in the years noted against them:

Maintenance of	1931-32	1932-33	1933-34
Trunk Roads	21·71	20·67	19·79
2nd Class Roads ...	49·36	42·00	42·08
	71·07	62·67	61·87

That the need for the rapid construction of roads is essential, has not been understood; this will be clear from the fact that huge amounts are being earmarked for the maintenance of the old roads rather than for making new ones. It is only from the balance of the allotment that any new construction has to be undertaken; this meagre fraction of total expenditure is in no way adequate to meet the high cost of road construction. It is therefore no wonder that these factors have stood in the way of any appreciable extension of road communication. To show the enormous percentage of maintenance cost in relation to total expenditure it is sufficient to say that the maintenance cost amounts to half of the total expenditure, ordinary and capital inclusive. A remedy for the situation consists solely in minimising costs. But this does not mean that a sudden reduction in the maintenance cost is advocated. It will be bad economy to stint on maintenance as great damage is likely to be caused to the roads through delays in repair. "It will not also be wise to curtail the mileage of roads now in use as it is generally admitted that the districts have not yet reached the minimum mileages consistent with the requirements of modern times." It is not also desirable to economise in the lay-out of new roads. When new roads are laid out they should be constructed on the best possible lines even if they are expensive, since inferior types of roads are likely to involve heavy recurring expenditure. When the initial investment is made with a view to securing a durable road surface, subsequent recurring expenses can be minimised.

It is obvious that under the present state of local finances local authorities cannot embark upon a bold policy of road extension. But if commerce is regarded as the life-blood of the nation, the roads should be viewed as the arteries. The development of the roads is thus vital to the prosperity of the country; unfortunately, however, they are intimately connected with the local boards which have but few large financial resources. The removal of tolls and the substitution of the Motor Vehicles Act of 1931 took away a large slice of the income of local boards, and though the compensation the local authorities received was indeed based on their average income from tolls for three years prior to the enforcement of the Act, it has to be recognised that, while this method gives the benefit of a moderately fixed sum to the local bodies irrespective of previous fluctuations in receipts, it has robbed the local boards of the benefit of a rapidly expanding source of revenue. A new and more just method has to be devised for compensating the local authorities for the loss they have suffered by the abolition of tolls; and if a successful method is devised, local boards will acquire the financial strength needed for a rapid extension of the road system in the right direction.

Education.

The position that education occupies in local board finances is more or less similar to that of communications. Roughly a fourth of the total expenditure is devoted to it. The expenditure under this head is divided between two items, elementary education and education other than elementary. Of the total, however, nearly five-sixths is spent on elementary education while only a sixth is devoted to the cause of education other than elementary consisting of secondary schools, special schools and public libraries. More than half the expenditure on education is met out of government grants. The yield from education tax and other receipts amounts to slightly less than a fourth of the total expenditure on education. The contribution from Education tax ranges in the neighbourhood of 13 to 15 lacs of rupees per annum; but the contributions and endowments together amount to but a negligible portion of the total

expenditure. The contribution from general accounts is moderate. About the beginning of the thirties of the century in spite of heavy expenditure on education, the percentage generally of boys of school-going age who did not attend any school in the local area of the whole presidency was in the vicinity of 60 while that of girls was over 80.

An interesting observation should, however, be made with regard to the expense on education, arguing on the basis of the strength in schools. In 23 out of 25 districts the percentage of boys in classes I to II to the total number up to class V has been above 60, and in some districts even 70, in the early years of the last decade. In the case of girls the percentage has been over 70 in all but one district in which it went up to 90 and above. The percentage of such strength in the twenties was also similar. Rightly has it been observed thus in the report on the working of the local boards, 1921, as a comment on these figures:—

> "It is generally admitted that education which does not go beyond class II is hardly worth having. If every child remained at school till it completed its studies in class V, the relative strength of several classes would be equal. In other words the ideal would be 40% in classes I and II and 60% in classes III to V. . . . Considering the heavy cost of elementary education these figures are most disappointing. The only possible interpretation is that the school life of the average child is much too short to be of real use to it, and the corollary is that a larger proportion of public money spent on elementary education is spent to very little purpose."

To send children to school for the first two classes and then withdraw them to relapse into ignorance, is an indirect wastage of public funds. An efficient propaganda for encouraging parents to keep their children in the higher classes is essential in order that public expenditure on education may fruitfully be utilised to the benefit of the public and the state.

Another observation may also be made in connection with the expenditure on education. A very large percentage of local fund schools is accommodated in rented buildings. It is desirable that these boards should construct their own buildings in order to obviate the wasteful payment of heavy rents. A reform in this direction will be helpful to education and the immediate attention of all local boards should be directed towards the question.

Public Health.

Expenditure on this item has not reached any appreciable extent. It is indeed generally believed that the first essential function of a local authority is to safeguard the health of the inhabitants in its jurisdiction; but a consideration of the amount spent on public health in relation to the needs of the people should lead us to the regrettable conclusion that local authorities have not yet realised sufficiently the importance of public health service. The following figures show the expenditure on public health in relation to the total expenditure for a few years.

Financial Aspect of Public Health Services
(In Lakhs of rupees)

Year	Total Expenditure	Income	Differences
1922-23	28·25	4·18	—24·07
1923-24	29·00	5·31	—23·66
1924-25	27·13	5·19	—21·94
1925-26	32·78	9·23	—23·55
1926-27	32·53	8·16	—24·37
1927-28	35·92	9·04	—26·88
1928-29	35·58	9·01	—26·57
1929-30	...	...	...
1930-31	38·19	9·30	—28·89
1031-32	37·75	8·06	—29·69
1932-33	35·05	7·50	—27·55
1933-34	33·98	5·60	—28·38
1934-35	32·31	4·40	—27·91

Public Health thus occupies but a relatively minor position in the scheme of local fund expenditure. Further,

even the small allotments made have been utilised to no great purpose. This would be strikingly revealed by a study of the average area and number of persons served by each centre. Even as late as 1934, on an average, 108 sq. miles of area and 36,700 persons were served by each centre in the presidency. The smallest area served by any centre was 41 sq. miles while the biggest area was 289 sq. miles. Considering further how badly the villages are furnished with roads and bridges, it is easy to see that even the limited provision made for medical relief and sanitation is ill-distributed and hence rarely benefits an appreciable section of the population in any area. The necessity to increase expenditure on public health is emergent; and every effort should be made to provide an adequate number of hospitals or dispensaries in the rural parts.

REVENUES

The revenue side of the question may now be taken up for consideration. There is no need to deal here with the individual items of revenue as in the case of expenditure for the reason that the number of items are too large and but a few of them are worth a full treatment. Hence, only the most characteristic features of the revenue receipts are here considered. As these have been subject to quick changes after the period of depression the position of revenue receipts just before the enactment of the 1935 Act has been described and the remarks of the Special Officer have been quoted in full wherever necessary. It may be said, however, that the present condition of local boards is not in any way materially better than that considered and that the characteristic features of the revenue receipts as they were before 1935 are still true to a great extent.

The dominant features of the revenue receipts of the district boards have been described in the following terms by the Special Officer:—

> "Schedule V to the Madras Local Boards Act XIV of 1920, as modified up to 1st October, 1930, provides nineteen sources from which the District fund could be built up. But in practice,

> the feeding sources are chiefly land-cess, licence fees, tolls (now substituted by compensation under the Motor Vehicles Act) and Government grants. Ferries contribute a decent sum in a few districts as Malabar and Trichinopoly. Avenues, in almost all the districts, have failed to prove remunerative in recent years. All the remaining heads of revenue serve to swell more the monthly accounts of a district board than its coffers."

Writing about land cess, the Officer remarks, "Land cess is collected by Government and its yield does not normally vary in a period of 30 years." Licence fees and tolls before they were abolished were the main items of elastic revenue; but even, in regard to these, owing chiefly to the abolition of the tolls and the substitution in its place by a grant from the Provincial Government, "the power to vary its range and effect with reference to the changing financial needs of the district fund, vests in an authority other than the district board." And, as for Government grants, they are generally rigid.

Continuing the Officer writes:

"Summarising the general features of the notable items of revenue to the district board and their effects, it must be noted that (a) three sources out of the four are generally inelastic. Whenever responsive, it is usually to the detriment of the district board finance. (b) All these three are operated upon by an outside authority. The district board has neither the incentive to nurse their growth nor is given the opportunity to develop a sense of public responsibility to increase funds. (c) The fourth item, namely, 'licence fees' is the only item that may be useful in times of need. . . . "

Commenting on the revenue receipts of the taluk boards, he says:

> "The most striking thing is the inadequacy of the receipts for the several taluk boards that had to be constituted on account of the recent policy

> of constituting one for each revenue taluk. In several cases, the general revenue is hardly sufficient to meet the establishment charges."

It is the absence of any correlation between revenue and expenditure that led to an enquiry into the financial position of the taluk boards about the year 1933 and their final abolition subsequently. It has been claimed that this step has removed but a mere link of no great use; actually, however, it has thrown a heavy financial burden on the district boards. No doubt, the revenues formerly enjoyed by the taluk boards now accrue to the district boards, but it should be remembered that there is a serious disparity between receipts and revenues.

This is a general picture of the state of the finances of two of the more important local authorities as they existed on the eve of the enactment of the Government of India Act of 1935. This Act has to some extent improved the position of local authorities but it has left much to be desired. It is now too early to consider the implications of the financial provisions of this Act with respect to local authorities and hence no consideration has been given here to the financial position of local boards after the Act of 1935 came into effect.

STATE IN RELATION TO LOCAL FINANCE IN MYSORE

BY

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The local institutions in Mysore, as in the rest of India, are municipalities for the civic administration of cities and towns, district boards and panchayets for the administration of rural areas. The process of evolution of these institutions has been one of devolution of powers from the larger unit to smaller ones. The contrast that is relevant to the present enquiry is that drawn by the Indian Taxation Enquiry Committee between local institutions in the western countries and those in India. It is pointed out by them that whereas in Europe, "the process has been of a federation of smaller units into a larger unit to deal with common interests which they cannot deal with individually," in India it has been "the much more difficult process of devolution of powers by the larger unit to the smaller ones." The difference in the development of local institutions has naturally affected the political and financial relations between the central and local authorities.

It was in the year 1862 that in Mysore the first step was taken to constitute local bodies for the cities of Bangalore and Mysore for the control of 'local affairs.' This policy was extended later to the district headquarters and the larger towns in the mufassal and it was followed by the formation of district committees, the nucleus of the present district boards. At the beginning of the present century the then existing local authorities were placed on a statutory basis. Village panchayets however were constituted only towards the beginning of the 2nd quarter of the present century. Regulations and Acts have been passed from time to time for extending the scope of their functions

and activities and this has resulted in an increase in the volume of local expenditure in the state.

The following statement of receipts and expenditure of local bodies in the state shows the growth of expenditure in 1939-40 as compared with 1924-25 besides indicating that the expenditure of local bodies has been in excess of their receipts. The public expenditure in the State rose from Rs. 286 lakhs to 415 lakhs during the above period.

Statement Showing the Increase in Local Expenditure in 1939-40 as Compared with 1924-25 (in Rupees).

	Receipts.		Expenditure.	
	1924-25	1939-40.	1924-25	1939-40.
Bangalore City Municipality.	8,64,195	28,98,770	8,19,023	29,06,391
Mysore City Municipality.	4,62,344	8,62,395	4,19,822	9,50,005
Town and Minor Municipalities. ...	9,78,203	23,73,314	10,94,832	22,88,561
K.G.F. Sanitary Board.	1,25,531	1,82,079	1,25,228	1,79,767
District Boards. ...	23,50,399	16,32,520	28,29,121	17,32,812
Village Panchayets ...	...	9,96,492	...	12,51,478
Total ...	47,80,672	89,45,570	52,88,026	93,09,014

The functions assigned to each of these groups of local bodies may be said to be more or less covered by the following summary of their functions:—

(*a*) Education including libraries, museums and picture galleries.

(*b*) Public health including water supply, drainage, hospitals, conservancy, town improvement, lighting and regulation of traffic, housing of the working classes, registration of vital statistics and vaccination.

(*c*) Communications including highways, paths and bridges.

(*d*) Poor relief including the maintenance of paupers, lunatics and defectives and the provision of asylums.

(*e*) Development of the economic condition of the area or the district with special reference to agriculture, industries and commerce.

A proper classification of public services into federal, provincial and local was considered at one time to be very essential. But the growth of public expenditure in the modern age and the growth of public services common to the different parts of a country have transformed several of the so-called local services into national or semi-national services. By comparing the budget heads of the state budget in Mysore with items enumerated above, it becomes clear that it is not so easy to separate public services into such water-tight compartments. Local services like education, public health and communications tend to become increasingly national in character The state has accordingly been compelled to prescribe the standards of administration and to exercise control over the local bodies to ensure adherence to such standards. In the words of the author of the Report on Taxation in Mysore, "the interests of a locality and those of a state, as a whole, are identical and do not admit of any clear-cut differentiation. Accordingly apart from a few functions which lie obviously within the province of the central government, it is entirely a matter of expediency as to which of other functions are performed by the central government or by local bodies."

The study of the evolution of local bodies in the state and the structure of the state finances will show that the sources of taxation and other items of revenue left in the hands of local bodies are inadequate for satisfactorily meeting the heavy obligations imposed on them by statute. It has been also an accepted maxim that the central government is to act as the collector of revenues and transfer some portion to the local bodies so that they may adequately perform the duties required of them, in the interests of the state as well as of the locality. Such a transference of funds can be effected in various ways. With a view to examine the

nature of the financial assistance rendered by the state to the local bodies in Mysore, the methods of such transference of funds are classified into four groups:—

1. Method of shared local expenditure.
2. Method of assignment of certain heads of, revenue to local bodies.
3. Method of shared revenues.
4. Method of grants-in-aid.

We find in Mysore that charges of a local nature are borne by provincial funds. Primary education and medical relief for instance are attended to by the local bodies in the British Indian provinces with the help of grants or subventions from the Provincial Government. In Mysore, on the other hand, hospitals and schools are maintained by Government, only a part of the expenditure being met by district boards and municipalities. This fact must be borne in mind when any comparison is instituted with grants-in-aid to local bodies in British Indian Provinces, where such services are in full administrative charge of the local bodies. The total direct expenditure on primary education in the state in 1939-40 was Rs. 23,83,594 of which about 72·6% (Rs. 17·30 lakhs) was met from state funds and 25·6% from local or municipal funds (Rs. 6·10 lakhs). The total expenditure on hospitals and dispensaries in 1939-40 was Rs. 19,82,217. Of this sum the contributions from district and municipal funds amounted to Rs. 3·40 lakhs. Taking only the local fund dispensaries and district hospitals into consideration it is found that the state incurred an expenditure of over Rs. 7·5 lakhs as against a contribution of Rs. 3·32 lakhs from the local bodies. The expenditure on communications may also be cited as an example though the whole of it cannot rightly be considered as a local charge. The total expenditure on roads—construction and repairs—amounted in 1939-40 to over 41 lakhs out of which the contribution from local bodies was about Rs. 9·66 lakhs.

The second and the third methods do not differ substantially. The underlying principle in both these cases is to

allow each local authority to appropriate wholly or in part the proceeds in its area of certain heads of national taxation. The history of local taxation in Mysore indicates that the taxes and cesses which were considered at one time as part of Government revenue have been transferred to local bodies from time to time. Prior to 1867 the sum devoted to local funds was treated as a part of the state assessment on land, 1/16 of the realizations in a taluk being credited to local funds. In 1868 it was decided to levy an independent local cess and the levy was later extended to excise and forest revenues. Mohatarfa in non-municipal areas was similarly transferred from the budget of the central government to that of local bodies in 1917-18, *viz.*, to district boards on the recommendations of the Special Committee on Local Finance. In 1926-27 the district boards lost this source of revenue in favour of village panchayets. It has been frequently urged by the public in Mysore that Miscellaneous land revenue receipts like Hulbanni and Amarayi may be similarly assigned to local bodies.

The Road Traffic Taxes Act which came into force in Mysore on 1st January, 1936 introduced a radical change in the system of tolls and taxation of motor vehicles and in the machinery for the collection and administration of these funds. The centralisation of this authority deprived the local bodies of an expanding source of revenue. Without going into the details of this complicated problem, it is necessary to point out that this change led to a detailed examination of the methods of sharing the sources of income contributed by the motorists to the revenues of government. The distribution of the revenue from motor traffic or what may be called the sharing of 'the user taxes' between local bodies and the government was examined at length by the District Board Finances Committee. They expressed the opinion that 'the only practicable method which would also be a fair and reasonable one is to divide the excess revenue . . . . . between the State and District Boards in the proportion of the expenditure which they incur annually on the roads within their respective charges.'

An adjustment of the financial resources between the central government and the local bodies must necessarily

follow the extension of the field of Government and public finance. The improvements in the standards of administration at the Centre has its own re-actions on the expenditure by the local bodies. Apart from the time-honoured practice of Grants-in-aid to local bodies, it appears to be necessary to devise schemes for assigning or sharing certain sources of national revenue. In doing so attention may be paid to the peculiar regional economic advantages, if any, possessed by the district, the town or the city, by the exploitation of which national revenues have been benefited considerably. It is not enough if the revenues so assigned or shared enable the local bodies to maintain financial equilibrium. There must also be expanding sources of revenue so that the local bodies may attend to the nation-building or developmental functions.

The assignment of a share of land revenue to the local bodies of the rural area, viz., district boards and panchayets, has been suggested by several Committees of Enquiry into the taxation system of India. In the light of the unsatisfactory financial condition of the district boards, it has now become necessary to examine if the time has not arrived for assigning a portion of land revenue to local boards. After reviewing at length the opinions expressed by the Public Commissions and other competent authorities, the Kale Committee on Local Self-Government have said, "we regard it as fair that 10% of the land revenue collected in each district should be assigned to the District Board. Unless this is done, we are afraid that the condition of local finance will remain unsatisfactory and that there will be no prospect of its becoming progressively more independent of provincial subventions."

It must be conceded that the value of house property in urban areas has considerably increased with the development of towns and cities in the state and the forward economic policy pursued by the government. It has a rightful claim for a share in this enhanced value which has been largely the result of the liberal policy of Public Finance pursued by the state. A modest tax on house property, therefore, say at 1% on its capital value may be imposed, the proceeds being shared between the urban local authority and the govern-

ment. This will bring not only an appreciable income to both the units of Government but will be a right step in the direction of reducing the inequalities in the tax burdens between the rural and urban areas.

Grants-in-aid are a familiar feature of local finance both in Mysore and in the British Indian Provinces. 'Local Self-Government grants for public improvements' forms one of the major heads of the Mysore budget. A classified statement relating to such grants for the last eleven years is given below with a view to indicate the variations in the nature and amounts of the subventions to local bodies in the state:—

Grants for Public Improvements. A. Urban.
(In Lakhs of Rupees.)

Year.	Bangalore City Improvements.	Mysore City Improvements.	Improvements of Towns and Minor Municipalities.	Improvement of Water Supply.	Total.
1929-30	·30	1·00	·97	·31	2·58
1930-31	·30	1·00	·66	·18	2·14
1931-32	·15	·65	·33	·15	1·28
1932-33	·15	·50	·33	·31	1·29
1933-34	·55	·52	·45	·57	2·09
1934-35	·15	·70	·35	·45	1·65
1935-36	·72	·75	·27	·73	2·47
1936-37	1·20	·75	·36	·52	2·83
1937-38	·63	1·00	·91	1·51	4·05
1938-39 (Revised)	·70	1·00	1·10	1·69	5·49
1939-40 (Budget)	·45	·75	1·00	1·00	3·20

B. *Rural (In Lakhs of Rupees).*

	Rural Reconstruction.	Drinking Water Wells in Villages.	Tube Wells.	Malnad Improvements.	Total.
1929-30	1·47	1·01	1·13	1·05	4·66
1930-31	1·03	·70	·95	1·03	3·71
1931-32	·73	·48	·57	·68	2·46
1932-33	·54	·47	·43	·66	2·10
1933-34	·55	·73	·26	·62	2·16
1934-35	·96	·74	·19	·63	2·52
1935-36	·70	·97	·30	·62	2·59
1936-37	1·09	·97	·25	·61	2·92
1937-38	1·22	1·84	·46	·64	3·16
1938-39 (Revised)	1·52	3·00	·35	·63	5·50
1939-40 (Budget)	1·30	3·00	·31	·63	5·24

The total grants for public improvements amounted to Rs. 66·09 lakhs for eleven years giving an average of about 6 lakhs as against an average of 4·5 lakhs as shown by the figures for eighteen years ending with 1926-27. The author of the Report on Taxation in Mysore laid stress on the desirability of regularising the scheme of grants-in-aid and suggested a set of rules governing such expenditure by the state. A scheme of planned expenditure through grants in respect of works of local utility will result in a wiser and better distribution of the funds among the various local bodies in the state. Such a scheme of planned expenditure has been adopted by the Government of Mysore for example in the case of grants for the provision of drinking water wells. With a view to see that all the villages in the state are pro-

vided with drinking water wells within a few years the Government decided in 1938-39 to provide annually a sum of 3 lakhs for a period of five years.

The extension of this method of planned grants-in-aid to specific grants in general and to the subventions to local bodies like minor municipalities which are not likely to find their powers of taxation, even when fully exercised, adequate to maintain the essential services, will perhaps enhance greatly the utility of grants-in-aid.

MUNICIPAL TAXATION IN C. P. & BERAR

BY

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Although three-quarters of a century have elapsed since the beginning of Local Finance in this country, it has to be sadly noted that Municipal Finance in C. P. as in other Provinces, has not radically changed its character. The items of revenue and expenditure are almost the same in the Acts of 1889, 1903, and 1922, which were passed to regulate Municipal Finance in this Province. Now the rapid growth of the towns, and the realization of the urgent necessity of the cultural and material development of the people in these cities, have tended to increase the expenditure of the Municipalities constantly. The items of revenue, however, have not proved to be so elastic as to meet this ever-increasing burden. The condition of the people has constantly deteriorated during the last two decades, and this has been very much pronounced since the great depression of 1929. There is moreover a reluctance on the part of the Provincial Governments to part with their powers. This is not enough, for in certain cases the Provincial Governments have encroached upon the fields which have generally been accepted to Local, *e.g.*, the entertainment tax of the C. P. Government. There is, therefore, a cry all over the Province that Municipalities do not perform their duties efficiently. It is true that a part of this inefficiency is due to municipal councillors themselves, but the real cause is the rigidity of the resources, which cannot increase as fast as the demands of the public.

The reasons for the failure of a large number of prominent municipalities such as Raipur, Jubbulpore, Nagpur, Amraoti, etc. are, therefore, partly local and partly general. The local causes arise because of the failure of the municipal councillors to know their responsibilities and duties. I have found from my recent survey of prominent municipalities in our province that the councillors and the Presidents

fail to separate policy from practice. They have almost forgotten everywhere that their chief business is to direct the policy of the municipality and to see that the policy is properly being executed. They seem to think, however, that they have every right to interfere in the working of their own policies is evident from the complaints of the Secretaries that they have to suffer from the interference of the councillors. This interference tells upon the collection of the important taxes levied by the municipality. There are very few municipalities which can boast of a standard collection of over 90% of the dues, and those who can do so, have generally the smallest incomes. The collection of the taxes is generally never above 70%, and it is not rare to find municipalities whose collection is as low as 30%. Under these circumstances it is no wonder that there is a constant cry that the municipalities do not and cannot perform their duties effeciently under the present system. Government had to use their power under the Act, and the most prominent municipalities of Jubbulpore, Raipur, Amraoti, and Nagpur, came to be managed by Officers appointed by the Government. It is a common experience of these municipalities that the general management showed considerable improvement, and this improvement has been specially visible in the matter of the collection of municipal dues. The collections have come very much nearer to the standard ones. The main reason for this lies in non-interference in the matter of collections, and in setting the machinery for collection as and when required to the fullest possible extent. The Official Report on the Working of the Municipalities in C. P. and Berar for the year ending 31st March 1940 confirms the above conclusion. It says, "The results achieved by Officers-in-charge show unmistakably that the plea of economic distress, usually advanced by Municipal Committees which are unable to collect their taxes, is untenable. What is required is staff with a keen sense of duty, absence of interference by the office-bearers and members and willingness to resort to coercive action against defaulters promptly and fearlessly."

In order to improve the financial position of the municipalities it would be better if the municipal councillors.

give up their attitude of interference in the actual working of their own policies. If, however, they have failed to do so in spite of Government warnings, some other solution must be found out. In my opinion it lies in strengthening the position of the Chief Executive Officer, or the Municipal Secretary as he is known. The fact that he is appointed by the Committee and remains in office until he has the support of 2/3 members of the Committee, is his weakness. He cannot, therefore, go against the wishes of the prominent members of the Committee. I would, therefore, urge the complete separation of the Executive from the Legislative. This can be done by the appointment of the Secretary, not by the Committee, but by Government which should introduce a separate grade for the Secretaries. They will no doubt carry out the policies laid down by the respective Committees, but will be able to carry them out more effectively and more fearlessly than at present. This is rather a very strange suggestion, but this is the only way in which the councillors can be made to learn to give up their interference.

Government, therefore, have been freely exercising the power of dissolution to end the era of chronic maladministration and to put matters right through the appointment of officers-in-charge. This policy is fully vindicated by the reports of clean up and progress received from these officers-in-charge. Although the regime of the officers appointed by the Government is only a temporary one, still it is hoped that, the standard set up by them will be maintained by the elected body.

Of the sources of revenue the most important is the indirect tax on commodities in the form of Octroi and Terminal tax. Out of the total income of the municipalities in this province, of Rs. 94 lacs, Rs. 25 lacs or nearly 30 per cent is contributed by this head. Octroi is to be found more prominent in the Hindi-speaking districts than in the Marathi-speaking ones, and there is no Octroi at all in Berar. The Akola district in Berar, levies no indirect tax in the form of an Octroi or a Terminal Tax, and depends entirely upon direct taxation.

It is a recognized fact that, the actual working of the

Octroi is defective in many respects. The export from and the import of goods within the town and their *ad valorem* assessment involves a good deal of wastage of time and energy of the through trader. In order, therefore, to reduce them to a minimum, the traders are willing to give bribes which the "Moharrirs" do not refuse. The giving and taking of bribes have, therefore, become almost a matter of routine, which every trader must observe, if he cares to see his own interest. The Octroi duties are higher than the corresponding Terminal taxes, and they become still higher by the addition of these illegal demands of the "Moharrirs." That these bribes are accepted is an open secret, although it will be difficult to prove this charge against any individual. Moreover, the getting of refunds is not an easy thing, for the papers pass through several officers and sometimes take years. Thousands of rupees are thus locked up in the municipality.

It would be interesting to point out the case of the Raipur Municipality in this connection. In order to dispense with the getting of refunds and the trouble that is involved in it, many of the through traders had constructed their godowns in a village named Gudhiari, which is just opposite the railway station and which was prior to 1938 outside the Octroi cordon. The village consequently became a great trading centre. But soon it came to be included within municipal limits and traders began to shift to another village, Kampa, which was outside the Octroi cordon. This migration was checked by the Bonded Ware House System which was adopted by an agreement with the traders. Under this System a trader has to pay at the rate of -/6/- per Rs. 100 of cost of imported goods at the time of the import. This money is not refunded. If any of the goods are subsequently exported, no refunds are claimed and if any goods are used, sold or consumed within municipal limits, the full duty is charged and the balance is recovered from the trader. The Municipality was doubtful of the procedure it had applied and the matter was referred to the Provincial Government, who have, however, given their sanction to it. The levy of -/6/- per hundred rupees without any refunds,

seems, therefore, to be a terminal tax of a new variety. Terminal taxes are levied according to the weight of the goods but this is an *ad valorem* tax. According to the Government of India Act of 1935, terminal taxes have become Federal and the existing terminal taxes of the various municipalities in the country can continue only with the connivance of the Federal Legislature. The sanction of the Provincial Government, to the method adopted by the Raipur Municipality to do away with the refunds in connection with the Octroi, almost amounts to this that, although the front door is closed to the introduction of the terminal tax by the Act of 1935, it may be admitted through the back-door. I would, therefore, advise the other municipalities in this province which are imposing the Octroi, to follow the lead given by the Raipur Municipality and adopt the Bonded Ware House System.

Again, according to the Act of 1935, it is not also possible to make any change in the existing terminal tax schedule. It would be interesting to point here the case of the Gondia Municipal Committee, which is trying to achieve this, without in any way changing the schedule. Gondia is a big trading centre for "Bidi." At present the Terminal Tax is only 0-0-6 per maund of 40 seers on *bidi* leaves, and 1-0-0 per maund on the *bidis*. The Committee wanted to increase the income from this source, but it is not possible to do so by changing the terminal tax schedule. It has, therefore, been proposed to levy a "toll tax" of -/2/- on every cart containing *bidi* leaves, on entering the town limits. This proposal is nothing but an indirect way of changing the schedule. It is not certain whether such a proposal would receive the sanction of the Government.

The income from tax on houses and lands is about Rs. 2,25,000 which is nearly 4 per cent of the income from taxation or 2 per cent of the total receipts of the municipalities in this province. Thus direct taxation forms a very negligible source of the revenue. The tax is most common in Berar, and is very rarely levied in the Nagpur, the Jubbulpore and the Chhattisgarh Divisions of the Province, so that the most prominent municipalities of Nagpur, Jubbulpore, Raipur, Bilaspur, Khandawa and Burhanpur do not

levy this tax at all. One feature of this tax in this Province is worth noting. Since 1937 Government have imposed a maximum limit of Rs. 240 to the amount that can be collected by way of this tax. This is certainly a very objectionable feature, if direct taxation is to assume a larger and larger proportion in comparison with the indirect taxes. The Nagpur Municipality has proposed to levy this tax from the 1st of January, 1942. There is a strong opinion among the people of the city that Government should set aside the maximum limit, as regards such special forms of property as the mills, factories and workshops.

As regards Water rate and conservancy cess, the charges are in the nature of "fees" for definite services rendered by the municipality. As regards these services the Central Provinces Local Self-Government Committee of 1935 recommended as follows:—"We, therefore, consider that Government should take power to compel Municipal Committees to make services like Conservancy, Water-supply and Lighting self-supporting. Such taxes should not, however, exceed the expenditure on the services in any case." Government have accepted this recommendation and it is mentioned in the annual report on the working of the municipal committees in C.P. and Berar, during the year ending 31st March 1940. "Government attaches great importance to the principle that specific services, such as Conservancy and Water-supply, must be self-supporting and would ask Commissioners to take up each case one by one, and to see that the Committees concerned submit necessary proposals on pain of disciplinary action." Such an action is considered desirable, because it is only in the Chattisgarh Division of the Province that the conservancy service is self-supporting. There was formerly one very important cause which made this service a burden upon the general revenues to a certain extent, and it was that the expenditure on road-watering, road-cleaning and also a certain portion of the drainage expenditure were included in the conservancy service. To meet all this expenditure, a very heavy tax would have been necessary. This defect has been now removed by the recent Government Notification excluding these items from conservancy and including them in

Sanitation. There is, therefore, no reason, why the municipalities should not increase their taxes to make the private and public latrine service self-supporting.

The acceptance of this principle of making no profits on the service with regard to Water-supply would, in my opinion, establish an unjustifiable precedent, for it would mean an unnecessary limitation of the already few resources of the Municipalities. Water is a saleable commodity and although there should not be much profit from the sale of water for domestic consumption, there is no reason why municipalities should not make maximum possible profits from the sale of water for industries and gardens. It is accepted that the financial position of the Municipalities will be improved by widening the field of municipal undertaking. Municipalities should depend more and more upon the profits from municipal enterprise, than upon taxation. If this is a wise principle, then the principle of making no profits on these services of water-supply, lighting, etc., is a serious hindrance in the achievement of that object.

Another direct tax is the Haisiat tax, which is a tax on the property and circumstances of individuals residing within municipal limits. It is considered to be suitable for small municipalities which cannot levy a property tax and is generally regarded as a substitute for that tax. Government prescribe not only the maximum limit of the tax per individual tax-payer, which is Rs. 240 per annum, but also the maximum limit of the total yield of the tax per municipality. The following procedure is adopted in the imposition of the tax:—

(1) Persons who cannot afford to pay twelve annas a year are exempted.

(2) Persons assessed in the lowest class, are assessed at four units each. The number of units of each individual tax-payer is determined not only with reference to his tax-paying capacity, *i.e.*, his circumstances, his social position and the size of his family, but also the extent of his property in the municipality and the relative benefit such pro-

perty derives from municipal administration.

(3) The total number of units of all the individuals are then added up and the value of each unit is determined by dividing the maximum amount prescribed by the Government for the municipality, with the total number of units. The assessment of each person will be determined by multiplying the value of one unit by the number of units at which he is assessed.

The Haisiyat tax, therefore, is a tax on both property and income, which allows graduation according to the ability of the tax-payers. In the house-tax only the property-holders are directly taxed, who may or may not be able to shift the entire burden on to the occupiers. Here the tax falls on all. I think that a tax, which is levied on all and which is graduated, incurrs less resentment than a tax on a few persons only. It is generally supposed that the tax is suitable only for small municipalities. I do not see the reason why it should not be adopted even by the bigger municipalities, as a substitute for the house-tax because, that it falls on all persons in the town according to their respective ability to pay, and that it tends to rest where it is levied are certainly very desirable elements in it.

SUMMARY

The causes of failure of a large number of prominent municipalities in this Province, are partly general and partly local. The general causes are the rigidity of the municipal resources as compared to their ever-increasing burden, and the constant deterioration of the condition of the people. The local causes arise from the failure of the Municipal councillors to separate policy from practice, evidenced by their attitude of interference in the execution of the policies, which tells especially upon the collection of dues and which, therefore, are very rarely above 70 per cent. In order to improve these affairs, I have recommended a complete separation of the Legislative and Executive functions of the Municipality. This is to be achieved by the appointment of the Chief Executive Officer by the Government.

Of the sources of income, the most important is the indirect tax on commodities in the form of the Octroi or the Terminal Tax. The Government of India Act of 1935 has placed many Municipalities in a difficult position, as many municipalities which would like to substitute the Octroi by the Terminal Tax cannot do so, as Terminal Taxes have become a Federal subject. The Raipur Municipal Committee have devised an ingenious way to do away with the giving of refunds in Octroi, by adopting, what is known as the Bonded Ware-House System. This, however, amounts to the admission of the Terminal Tax through the back-door.

The income from the house-tax is negligible, and is conspicuous by its absence in many important municipal committees. As regards the Conservancy Cess and the Water Rate, Government have laid down the principle of self-sufficiency, so that the income from them should be neither less nor more than the expenditure on them. The acceptance of this principle of making no profits, would estabilsh a bad precedent as regards Water-supply, for it would amount to a limitation of the already few resources of the Municipalities. Finally, the Haisiat Tax is regarded as a substitute for the house-tax and is supposed to be suitable only for the small municipalities. A commendable feature of this tax is, that it falls on income and allows graduation.

SOME ASPECTS OF MUNICIPAL FINANCE IN BIHAR

BY

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I

Local Self-Government in India, can be traced back to very ancient times, when there were the semi-independent village communities. They were independent as far as the internal administration was concerned. But "Local Self-Government in India, in the sense of a representative organisation, responsible to a body of electors, enjoying wide powers of administration taxation, and functioning both as a school for training in responsibility and a vital link in the chain of organisms that make up the Government of the country, is a British creation." (*Report of the Simon Commission*, Vol. I, p. 298.)

The development of Local Self-Government in India under the British rule commenced in the Presidency towns. A corporation was established in Madras as early as 1687. It was empowered to levy taxes, but the very first attempt to impose a tax was met with strong opposition of the inhabitants, and ultimately the Mayor was compelled to seek permission of the Court of Directors to levy an octroi duty on certain articles of consumption to meet the cost of cleaning the streets. Similar institutions were established in Calcutta and Bombay in 1726, but had to wait till the end of the 18th century when, in 1793, they were placed on statutory basis. The justices of the Peace, who were appointed by the Governor-General from among the Company's servants and outsiders, were empowered to levy taxes on houses and lands.

It was in 1842 that provision was made to introduce municipal administration in moffasil towns. This proved inoperative, as its introduction in any town, required the

voluntary application of two-thirds of the inhabitants. This clause was removed when the law was amended in 1850 and the municipalities were empowered to levy indirect taxes. A great impetus to the establishment of municipalities in smaller towns was given by the Army Commission of 1863 which drew promient attention to the filthy conditions of these towns. In 1865 municipalities outside presidency towns, were authorised to levy rates for local purposes. The next important step was taken by Lord Mayo's Government in 1871 when the scheme of financial decentralisation was introduced. This increased the functions of municipalities and introduced the elective principle. Many of the municipalities were partly or wholly relieved of their expenditure on Police.

The most remarkable change in the constitution and functions of municipalities was brought about by the famous resolution of Lord Ripon's Government in May, 1882. The municipalities were totally relieved of their expenditure on Police. Many municipal councils were authorised to elect non-official chairmen. Some items of provincial revenue were transferred from provincial accounts with a proportionate amount of provincial expenditure, for local objects.

Full powers of taxation and complete control over their budgets were given as a result of recommendations of the Royal Commission on decentralisation in 1907. The elective principle was further extended, and full powers in regard to taxation within the limits of the laws, were given.

Finally, several acts were passed about the time of the Reforms which further increased the power of taxation of local bodies and relieved them of official influence and control. Since then, many of the provincial Governments have passed their own acts for the development of Local Self-Government in their respective areas.

II

Most of the municipalities of Bihar came into existence in the seventies and eighties of the 19th century. There are, at present, 57 municipalities, including notified areas,

in this province. Out of these, 56 are constituted under B. & O. Act 7 of 1922; and one, the Patna Administration Committee, under B. & O. Act 1 of 1925. The total number of people living within municipal limits is about 14 lacs or 4·1 per cent of the provincial population (1931 figures).

The most striking feature of our municipal finance is the exceedingly low income, which is a great hindrance in the expansion of civic amenities. The income from various sources, in 1938-39, of all municipalities in Bihar was as follows:—

Income from taxes	Rs.	25,53,700
Income from license and fees	„	2,80,000
Income under special acts	„	90,159
Non-tax revenue (fees for services rendered and sale-proceeds of articles)	„	4,34,248
Government and other grants	„	5,47,721
Miscellaneous	„	91,648
Total	Rs.	39,97,476

It is true that the Indian municipalities in general, are poor* and have inadequate resources to discharge their responsibilities but the Bihar figures are ridiculously low. The incidence of taxes per head of population in Bihar is Rs. 1/14/7 only which comes to about 1/456 of U.S.A., 1/372 of U.K., 1/54 of Japan, 1/42 of France, and 1/39 of Italy. This is less than 1/3rd of the All-India average which is Rs. 5/12/-. In some of the municipalities of Bihar the figures of incidence of taxation are unbelievably low. In 6 of them they are below -/8/- per head and in the case of Daudnagar municipality in the Gaya district it has reached the low level of -/5/6 only. It will be interesting to note that the city of Bombay has an income (1938-39) of Rs. 347·67 lacs, and taxes contribute 82 per

* Calcutta with an income of over 2¼ crores has only 1/12th of the income of Glasgow having almost the same population.

"The income from rates (rural and urban) for all-India is little over the income of London County Council." (*Simon Commission.*)

cent of this income. The incidence of taxation is Rs. 25/-/6 per head.

Discussing about the poverty of our municipalities, the Simon Commission remarked (Part IV, Chapter 4, para 354) that "it is not only actual poverty which cramps their resources but the reluctance of elected members to impose local taxes." This is more or less true in all democratic countries and is sometimes regarded as an index of political consciousness. But to go below a certain standard of civil amenities is simply suicidal. In some of the municipalities of Bihar this tendency, *viz.*, the unwillingness to levy taxes has gone so far that even specific taxes do not cover their liabilities and the deficits are met out of general funds. In the audit report for 1939-40, it was disclosed that the latrine tax did not pay its way in 12 out of 44 municipalities audited; and the deficit had to be recouped from general funds, the position of which was already unsatisfactory in majority of cases. In one municipality of Bhagalpore, for instance, the debit balance was 20,278 rupees under the latrine tax and Rs. 73,690 under water tax.

From an analysis of the income from taxation, it will be seen that what are classed under taxes by the Government, are not all taxes proper, but some of these are of the nature of fees for services rendered. The income of Rs. 25,53,700 under taxes was made up as follows:—

Taxes on holdings	Rs.	12,18,430
Taxes on vehicles etc.	"	32,681
Water tax	"	4,26,201
Latrine tax	"	7,65,019
Tax on persons		1,20,541
Miscellaneous		828
Total ...	Rs.	25,53,700

From the above list, it appears that the tax on holdings yields only about 12 lacs, *i.e.*, 30·4 per cent of the total income from all sources. In other advanced countries, like United Kingdom, Germany, France, and Japan, rates on land form the main source of income of municipalities.

In England, this amounts to 63 per cent of the whole revenue and to about 25 times the amount of the land tax. In France, the important, and in Germany, all taxes on land have been made over to municipalities. This is also true, to a great extent, in Japan. A tax on houses and sites is a very fruitful source of income. If all the lands, agricultural or non-agricultural, vacant or occupied, are brought under taxation and a judicious rate is adopted, as is done in some provinces in India, it is sure to add to the funds of our municipalities and remove their poverty. Such taxes are justified by all canons of taxation.

The other tax which requires comment is that on persons. There are only 18 municipalities in Bihar which levy this tax, and the total income from this source is Rs. 1,20,541. This is again a very fruitful source of municipal income. It is true, that in some quarters the tax is not popular and many people dislike it on account of its inelasticity and the lack of just and equitable system of assessment. But to me, it appears that the fault lies more with the taxing authorities than with the tax itself. The inequity generally takes the form of favouring the influential and placing too heavy a burden on the poor. If 18 municipalities can collect more than a lac a year from this tax, there is no reason why the rest of 39 municipalities cannot add to their slender income by introducing it.

It will not be out of place to refer to another feature of our municipal finance, *viz.*. the lack of any plan in expenditure and accumulation of heavy tax balances. None of our municipalities has a definite programme of development chalked out for itself. It is an elementary principle of public finance that expenses on items of non-recurring type which promise to yield an income in goods or services, should as far as practicable, be met out of borrowed funds, and not out of current revenues. This is based on the equitable principle of distributing the burden of such items over several generations. This can be done by constructing them out of borrowed funds and repaying the amount in small instalments spread over several years out of current revenues. Nowhere in Bihar this principle seems to be recognised. Only 2 municipalities were indebted to

Government in 1938-39 to the extent of Rs. 97,000. This figure was only Rs. 5,250, in 1937-38. No amount was borrowed from outside, in the open market. From this, it is clear that in 55 municipalities of the province the capital expenses were met out of current revenues or Government grant. From the accounts for 1938-39, it appears, that the municipalities in Bihar spent Rs. 2,28,939 on original works under drainage, water-supply and buildings. The corresponding figure for 1937-38 was Rs. 3,71,621. Most of these items are capable of yielding service receipts, and it would have been better to meet the expenses from borrowed funds. Assuming the rate of interest to be 5 per cent per annum, a fairly high rate these days, they could have easily secured a loan of about Rs. 45,00,000 for their capital expenditure under these heads. This is an instance which gives an idea as to what our municipalities are capable of doing for various development schemes if they plan their expenses in advance and provide for necessary sinking funds and depreciation charges.

The other feature to which reference has been made above is the heavy cash balances maintained by some of the municipalities. The provincial Government have fixed a minimum of about 17 per cent of the annual expenses of the municipalities below which their balances should not go; and there are some municipalities which offend in this respect by maintaining very low balances. But on the other extreme, are municipalities which accumulate very heavy balances. In 12 municipalities the cash balance in 1938-39 was above 30 per cent of their expenses and in the case of Dhanbad municipality, it was as big as 116·8 per cent. The income of this municipality in 1938-39 was Rs. 65,866 and its expenditure Rs. 58,106, whereas the opening balance was Rs. 67,898. The average for the whole province comes to 28·7 per cent. The main purpose of a closing balance is to provide funds during the early months of the coming year. The B. & O. Municipal Act lays down that it should not be less than the total average charges for two months. It is an indication that our municipalities do not behave like public bodies and do not apply the principles of public finance in regulating their finances. They just think like

individuals and want to hoard money for emergencies. It is also an indication of bad budgeting.

I would like to make certain suggestion to improve the finances of our municipalities. Besides the heavier rates on lands suggested above, the question of levying a general sales tax on retail sales demands consideration. This tax has been levied by some of the provincial governments in India but is not yet introduced in Bihar. It is desirable that the tax be levied either by the municipalities themselves or by the provincial Government and a share of proceeds made over to municipalities according to their contribution. The tax does not offend against any of the canons of taxation and is a very legitimate charge on trade.

Another suggestion is to allocate a share of the entertainment tax now realised by the provincial Government to municipalities. The objects of entertainment are generally to be found in the towns, and the municipalities have to incur extra expenses on their account. The incidence of the tax is not shifted on to consumers, as it is a tax on luxury and most of the owners are in a position of a monopolist and find it profitable to pay the tax from their own pocket. Income from licenses granted to places of entertainment are a common feature in foreign lands.

I would have also suggested a surcharge on the income-tax for local purposes, as is done in France and Japan, but that seems to be outside practical politics in our country at present.

In matters of development of municipal properties our municipalities are again lagging behind those in foreign countries. The total income from markets and slaughter-houses in Bihar was Rs. 1,56,029 in 1938-39, *i.e.*, 3·9 per cent of the total income. With the increase of population, trade and industry, the value of municipal land is also increasing and the municipalities can derive a large income by letting out lands or lands with buildings at competitive rates. In Burma, as mentioned by the Taxation Enquiry Committee, no less than 38 per cent of the municipal revenue is realised through the letting of stalls in municipal markets, coupled with the taxation of private markets. The tax is collected with the minimum of expense and trouble to

everybody concerned; the prices are still governed by the competition of shops outside the market, and regulation of slaughter-houses ensures that sales are conducted under sanitary conditions.

Other taxes which may be introduced with profit are those on professions, domestic servants (to be realised from their employers) on unearned incomes and on transfers of property. All these are in operation in some or other municipalities of India.

It is admitted on all hands that for want of funds the activities of our local bodies are being hampered. It has become a convention that local bodies, in their annual reports, mention this lack of funds due to the unsympathetic attitude of provincial government in matters of grant, whereas the provincial Government in their turn, feel satisfied when they have passed a stricture or two on the refusal of local bodies in general to tax themselves for securing larger funds so sorely needed. No systematic attempt has been made to improve their funds by making a judicious use of various taxes.

III

Another distressing aspect of our municipal finance is the bad collection and bad accounting. It is true that elected representatives are least willing to levy a new tax or to enhance the rate of an old one but it is surprising to note that they are themselves the worst payers, and instances are not lacking when they are responsible for agitation for non-payment of taxes. In Great Britain a municipality expects to collect up to 98 or 99 per cent of the rates imposed by it and a drop in collection to 95 per cent would be the subject of very close enquiry (*Simon Commission Report*). Compared with this, the percentages of collection of dues in our municipalities seem to be very poor. In 1938-39 in 20 out of 36 municipalities in Bihar the percentages of total collection on current demand were 90 and below. There were municipalities where the figure was as low as 55 or even 40.

The failure of the executive to take action to realise

dues has resulted in the accumulation of heavy arrears in several municipalities. In 36 out of 57 municipalities the percentage of arrear demand on current demand was more than 20 in the beginning or end of the year 1938-39. In two of the municipalities of Chaibassa and Lohardaga the figures were 75 and 80 respectively. This is an undesirable incidence and throws reflection on the financial administration of our municipalities.

The executives are again liberal in granting remission to tax-payers. In the case of Lohardaga municipality the percentage of remission to current demand in 1938-39 was 52. The resolution of the provincial Government on the working of municipalities in 1923-24 (quoted by the T. E. Committee) contains the remark that one municipality "was brought to the verge of bankruptcy and the administration was in the highest degree corrupt and inefficient. Remission of taxes was sanctioned by the Chairman without enquiry and without the consent of the municipal commissioners and under circumstances of a suspicious character."

Instances can be multiplied of bad financial administration due to lack of supervision and interest of the executives. Cases of embezzlements, misappropriation, granting of advances which become irrecoverable, failure to adopt coercive measures to realise arears of taxes, are very common. Court decrees for an aggregate sum of Rs. 3,339 were allowed to become time-barred in the Bhagalpur municipality in 1939-40 on account of costs. In addition, suits for a total claim of Rs. 25,265 were dismissed, mostly for want of action, though the municipality had spent Rs. 1,883 of its good money in launching them. In some other municipalities also, arrears became similarly time-barred.

All these disclose a very unhappy state of affairs prevalent in our municipalities. Party factions and jealousies are becoming more conspicuous in the day-to-day administration. Powers and privileges are very commonly misused. The question which naturally crops up at this stage is, whether there is any remedy for these irregularities.

Government knows only one remedy, namely, the capital punishment. When municipalities persist in irregularities, they are superseded. But this is not a proper solution of

the various ills in our corporate life. The famous resolution of Lord Ripon's Government in 1882 advocated the introduction of 'Local Self-Government "as an instrument of political and popular education." Have we been able to impart this education to our people?

An improvement in the financial administration can be effected if Government exercises some control over the appointments of collecting staff. Jobbery and nepotism should be least tolerated in this respect. The appointment of a Government officer specially for this purpose who will exercise some control over the collecting staff and will also supervise the financial side of municipal administration will go a long way to improve matters. This will also introduce uniformity in assessment in different municipalities of the province. It will ensure greater income and also greater equity in taxation. The expert staff of the special officer will be admirably suited for this purpose. A more thorough audit and stricter supervision of the municipalities persisting in irregularities is also desirable. While making these suggestions, I have not the least desire to imply that there should be any interference with the detailed administration of these bodies, unless something serious happens. It is high time when the Municipal Act should also be revised in the light of recent experiences.

SUMMARY

The evolution of Local Self-Government in India since 1687. The gradual increase in powers of taxation of municipal bodies.

The low income of municipalities in Bihar. Criticism of some present taxes. New taxes suggested.

Shortcomings of financial administration. Causes of the same. Suggestions to improve this side of municipal finance.

REORGANIZATION OF LOCAL FINANCE IN INDIA

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Modern Developments in Financial Policy.

The theory and practice of Public Finance have undergone some radical changes in recent years. As a result of the impact of the economic depression, the period of rearmament, and finally of the exigencies of war, the whole attitude and approach to financial policy have been revolutionized. What used traditionally to be regarded as "sound finance" and orthodox financial policy has been proved to be inapplicable to modern conditions, and entirely novel and heterodox measures have not merely been accepted but already put effectively into practice.

In the light of these developments, modern financial policy has been directed towards the following objectives:—

(*i*) Planning financial policy as an integral part of general economic policy, as it has very important repercussions on monetary policy, investment, employment and several other aspects of economic life.

(*ii*) Adjustment of financial policy to cyclical fluctuations, and utilizing it as an active measure of stabilization by long-period budgeting with underbalancing in depression and overbalancing in prosperity, long-range planning of public works and controlled borrowing.

(*iii*) Viewing public finance not as an independent thing based on certain sacrosanct principles, but as the financial aspect of achieving certain objects without causing undesirable effects. If these objects cannot be achieved

> by the usual methods, the problem of obtaining necessary resources must be solved by extraordinary means—conscription, commandeering, borrowing, forced or voluntary; and control of vital aspects of the economic system like exchange, investment, etc.[1]

It is obvious that we have travelled far from traditional "sound finance" and that in India, we are particularly in need of alteration in the modern direction. Financial policy has formerly been utterly indifferent to other aspects of the National economy, and financial stringency has always been put forward as the stock excuse against a policy of development. What is needed is a policy which would stimulate investment and employment in the country and would help the effective prosecution of a war against poverty, ignorance and disease.

Objectives of Financial Reorganization in India.

Modern Financial Policy in India will have to be directed, therefore, for the following purposes:—

(*i*) Enormous extension of public expenditure on developmental services and of public investment both on key industries and on essential works.

(*ii*) Enhancement of resources for this purpose by:—

(*a*) Borrowing substantial amounts at controlled rates of interest.

(*b*) Tapping additional tax and non-tax revenue firstly for servicing the above loans and secondly for expanding current expenditure.

[1] On all this, please see Erik Lindahl: Studies in the Theory of Money and Capital: Note on the problem of balancing the the Budget, and the literature on War Finance, particularly Prof. Pigou's *Political Economy of War*, J. M. Keynes' *How to Pay for* the War and Prof. H. O. Meredith on "War Finance" in *The Political Quarterly*, 1940.

(c) Trying to obtain and utilize real resources like labour and materials for public purposes where money cannot be obtained.

(iii) Adjustment of financial policy to cyclical fluctuations as described above.

That such a reorganization of financial policy requires a systematic co-ordination of the national, provincial, and local finances has been made abundantly clear by experience abroad. We shall now proceed to consider what contribution local finance can be expected to make to such a policy and in what directions a reorganization of local-central financial relations is necessary for that purpose.

Development of Local Finance in Foreign Countries.

The equilibrium between central and local finance has been violently upset in recent years; the traditional idea that the problem of local finance is merely one of raising funds out of local sources for financing predominantly local activities has been given up. The new attitude has been one of adequately financing activities which are of quasi-national importance and which for reasons of economy and efficiency be best administered by local bodies, out of resources which have to be largely raised by national taxation and borrowing. At the same time, the consequent centralization should not be such that for the sake of unity and co-ordination, local autonomy is destroyed. As Mrs. U. K. Hicks puts it, "The fruits of a tradition of sturdy local freedom are solid and not lightly to be disregarded. Responsible local Government has proved an admirable training ground in administrative and political balance. It has provided a useful safety value for local divergences. And the close contact between Government and citizens which local administration promotes has helped to preserve the human element in the social services, even in vast modern communities. On the other hand, the growing importance attached to a progressive and unified socio-economic policy makes a very considerable degree of central control inevitable. The problem of central and local finance is

therefore to discover the best method of overcoming this dilemma."[2]

This problem became particularly acute in recent years, because local bodies have been responsible for vast and essential social services like Education, Public Health, Sanitation and Medical Relief, relief of the poor and the unemployed, and for important types of public investment on Roads, Water-supply and Drainage, Public buildings, Housing-schemes, and Public Utility undertakings. Their resources, mainly consisting of rates on property, incomes from local enterprises, octroi, etc., have been found to be extremely inadequate and contracting in depression time. Very few new local sources could be found, and national policy required a certain degree of uniformity and co-ordination, as well as an active encouragement of public investment. Borrowing under these circumstances could be economically carried out only by National Governments, as they could control monetary policy and as their credit was decidedly higher than that of the local bodies. Hence the problem of readjusting the equilibrium between central and local finances became emergent everywhere.

Such readjustment was carried out mainly by:—

(1) Transference of certain functions (*e.g.*, Trunk Roads, some schools, etc.) from local to Central Governments.

(2) Sharing of certain revenues on some predetermined basis between Central and local authorities.

(3) Substantial increases in grants-in-aid, both from revenues and borrowed funds, both by State and Federal Governments, and both in the shape of grants for specific purposes, and block-grants, general or ear-marked.[3]

[2] U. K. Hicks, *The Finance of British Government*, p. 147.

[3] H. J. Bitterman: "State and Federal Grants-in-aid" and Seligman: "The Co-ordination of Public Revenues" in "Essays in Honour of Gustav Cassel."

(4) A few attemps at tapping new sources of revenue.

Thus, financial equilibrium has been mainly restored by greater resources being placed at the disposal of local bodies either in the shape of shares of taxes or grants-in-aid. The latter have been particularly useful in improving the standards of local administration and in bringing about uniformity in policy.[4] These developments have inevitably led to a large degree of centralization, but have not destroyed local autonomy altogether.[5]

The same necessity for reorganization of local finance as an integral part of National finance, for a restoration of Central-local financial equilibrium, and for active utilization of local finance as an instrument of a new financial policy exists in India. An attempt will here be made to outline the general lines of such reorganization.

The Problem of Reorganization in India.

The foremost need in India is that for additional resources for National, Provincial and Local Governments. Discussion on this problem has clearly established the fact that there are very few additional avenues indeed: taxation of agricultural incomes and succession, of tobacco and of sales; the imposition of excise duties on articles of general consumption, and the development of some remunerative enterprises. These, altogether, will not yield adequate funds. If there is a rapid growth of the National Income, the existing taxes may yield more, but that development itself needs a large amount of public expenditure on the social services and on public investment.

Hence, our financial problem can be solved only by borrowing in large amounts, and by trying to utilize real resources which are lying idle or are under-employed. Local finance can be made to play a substantial part in this

[4] H. J. Bitterman: *op. cit.*, particularly chapters on "The Grant-in-Aid as a Financial Service" and "Conclusion: An Evaluation of the Grant-in-Aid System."

[5] Mable New Comer, *Central and Local Finance in Germany and England*, pp. 293—308.

direction, if a readjustment similar to the development abroad is carried out.

That the income of our local bodies of all kinds is extremely small, and totally inadequate for the satisfactory performance of their present functions, not to speak of the undertaking of new but long-overdue activities like organized poor relief, housing, etc., is so well known that it need not be laboured. The extent to which their existing taxes could be raised, or collected more fully, is very limited—owing to the fact that they are confined to rates on land and house property, taxes on professions, on vehicles, carriages and animals, and the proceeds of licenses. They have lost the lucrative source of tolls, and the proceeds of Motor Vehicles duties have neither been as productive, nor have they always been fully distributed to the local bodies. There has also been a tendency to appropriate former local sources for Provincial purposes as in the case of the entertainments tax, and the profits from the distribution of electricity in the Madras Presidency. Even the effective utilization of the existing sources requires the employment of more extensive and competent staff, which local authorites cannot afford with their present finances.

Hence, the only way of improving the financial position of local bodies is by transferring to them either shares or liberal grants out of the proceeds of new and old taxes. Particular mention should here be made of *land revenue.* Most Provincial Governments are committed to a substantial reduction of land revenue, and in Madras, a remission of nearly Rs. 75 lakhs per year is being given. This loss can and ought to be made up by imposing an agricultural income-tax. The amount intended to be remitted should either wholly or partly be given to the Panchayat. This amounts to 'remission,' not to the individual land-holder but the village-community as a whole; and as the expenditure of the local body is likely to be of a 'beneficial' character, it cannot be considered as a burden of the same order as of Provincial taxation. All the proceeds of motor-vehicle taxation should be distributed to the local bodies; and liberal grants-in-aid out of the proceeds of sales taxes, general and particular, taxes on entertainment and the

profits from electrical undertakings should be made to the local bodies. Such an increase of grants is both equitable and in conformity with the modern lines of development as already noticed above.[6] Increasing demands for grants have sometimes been criticized on the principle that "schemes of local interest should be financed by local rates" and an enhancement of rates has been suggested; but this is indefensible for the simple reason that it ignores the fundamental unity of modern public finance—to-day there are no schemes of purely local interest, nor are there any purely local resources. Besides, all modern opinion recognises that rates are both inequitable and uneconomic and can be justified only because of sheer necessity. Prof. Meredith says, "it hardly needs argument to convince us of their (rates) pernicious tendency in so far as they do not fall upon the value of land, ... The taxation of dwellings is perhaps upon the whole the most evil tax in principle which has ever been invented; it attacks a necessary of life the demand for which is inelastic."[7] The loss of revenue due to these grants must be made up by prevailing upon the Central Government to introduce new excise duties the proceeds of which are to be distributed to the Provinces. It is the personal feeling of the present writer that the policy of prohibition may be postponed till more positive measures for economic improvement have been largely carried out.

If thus the resources of local bodies are augmented by grants-in-aid, their administration can be improved, and existing taxes like the profession-tax can be made more productive. The Panchayats will be in a better position to officialise certain customary communal contributions which are frequently spent for pseudo-religious purposes, and put them to social use. The inherent dislike of the ordinary citizen for taxation can be combated by organized effort.

[6] The percentage of net expenditure of local authority met from grants stood at 36·2 in Geamany in 1931-32, and 46·2 in England in 1932. (See Mable New Comer, *op. cit.*) Government Grants formed only nearly 18 per cent of the total ordinary revenues of Municipalities in India in 1932-33.

[7] H. O. Meredith, "Rates and Taxes," *Economic Journal*, September, 1939, p. 420.

"The primitive prejudice against taxation by public authorities is a persistent obstacle in the way of progress in this democratic age. The electorate should learn that there are circumstances in which social utility can be better promoted by public than by private expenditure. Such a lesson ought to be easier in the field of local, than of imperial or provincial taxation in the benefits accruing from expenditure by local bodies are immediate and direct."[8]

Coming to the question of borrowing, this indeed forms the central part of the policy of reorganization. A large amount of public investment, remunerative or socially useful, is absolutely essential for raising our standard of living and also for developing our economic resources to the fullest extent. Hence, under peace conditions, large-scale borrowing at low rates of interest has to be resorted to by the Provincial Governments while the Central Government has to help by appropriate monetary policy. The debt position of most of our provinces is very sound; *e.g.*, Madras was estimated to have capital liabilities to the extent of Rs. 19·17 crores on 31st March 1939, as against which it had remunerative assets of Rs. 31·85 crores and an annual revenue of Rs. 16 crores. Thus it is clear that a far too conservative policy has been followed with regard to borrowing. The same policy has been followed with regard to borrowing. The same policy has naturally been followed by our local bodies because they have been fully controlled in this respect by the Provincial Government. A substantial part of even capital expenditure is met from current revenues; *e.g.*, in the Madras Presidency, the District Municipalities, met in 1937-38, only Rs. 19·68 lakhs out of a total capital expenditure of Rs. 38·81 lakhs from loans.[9]

Meeting capital expenditure out of revenues is legitimate, and even necessary, in a period of prosperity; but it is hardly proper when essential schemes are neglected

[8] M. Venkatarangaiya: *The Development of Local Boards in the Madras Presidency*, p. 223.

[9] Annual Administration Report on the Working of the Madras District Municipalities Act for 1937-38.

and welfare services are starved for lack of funds! The expenditure of the United States in recent years shows an enormous growth in indebtedness, the Municipal debt standing at six times the state debt.[10] The predominance of local debt over all other kinds of public and private investment is characteristic of British conditions also.[11] The Madras Financial Relations Committee of 1920 recommended a progressive loan policy and a system of grants for capital expenditure out of a Local loans fund, but this has not so far been implemented.

Public investment on Roads,[12] on works necessary for health and education, on public utilities and housing, should actively be carried out by encouraging local authorities to borrow on a well-planned basis, and also by capital grants for maintenance. The servicing of these loans must be the main purpose of additional revenues. Provincial Governments can also try to obtain loan resources by tapping small savings through a system of "Treasury Savings certificates;" "Internal user" of departmental funds and sinking funds to a certain extent can also be resorted. Incidentally, it may be pointed out that the whole scheme of German rearmament and recovery, not to speak of war-finance to-day, was financed by series of short-term loans later on converted into long-term ones.

If the local bodies are thus encouraged to borrow on easy terms and assisted by more liberal grants, there is every reason to hope that they can raise additional resources themselves not merely by better administration and extra-taxation, but also by tapping real resources which cannot at present be obtained in terms of money. While the commandeering of real resources might be easier for a

[10] *State and Local Government in the United States*, by W. S. Carpenter and P. T. Stafford, page 183.

[11] U. K. Hicks, *op. cit.*, pages 106, 117, 130 and 131.

[12] The Automobile Associations of India have constantly urged a borrowing policy for Roads. Mrs. Hicks has argued that in England, where 10 to 12 per cent of road expenditure is met from loans, "the small proportion financed out of loans" constitutes a "fundamental weakness of British road administration." See *Finance of British Government*, p. 144.

Dictatorship or a State at War, yet under peaceful and democratic conditions, it is only well-organized local units with the help of enthusiastic leadership that can attempt at such a mobilization. Free gifts of land and building materials, labour and carting services at concessional rates for roads and public works, the services of the educated unemployed for adult education and literacy work, contributions in kind for institutionalized poor relief—these are a few of the ways in which village Panchayats, with the sympathetic help and active encouragement of provincial officers, can try to tap real resources. But the existence of independent, well-organized and enthusiastic Panchayats is a pre-requisite of these developments. The recent move of the Madras Government to put the Panchayats under the Revenue Department and to officialize them largely is definitely injurious and least calculated to stimulate local initiative.

It has been frequently pointed out that the development of remunerative enterprises and some fiscal monopolies offers one method of raising additional resources. While certain of the larger enterprises like electrical development and Insurance can be taken up by Provincial authorities, there is no reason why local bodies should not try smaller projects. Municipalities can own Cinema houses and run local transport systems like Buses and Trams; they could be given the monopoly of the vend of tobacco, and of the sale of petrol. They are already trying to develop other enterprises like markets and slaughter-houses.[13] Some District Boards in the Madras Presidency recently wanted to run Bus-service as monopolies, but the Government did not accord permission. If the reason for such a refusal is a fear that local bodies cannot make these propositions a commercial success, a system of Public Corporations in which the local bodies have adequate interests can be promoted. This will also obviate the financing of these projects entirely by loans. In those cases where the

[13] The District Municipalities of Madras obtained a net revenue of Rs. 20·42 lakhs from remunerative enterprises, while the Madras Corporation got total receipts of Rs. 5·2 lakhs in 1937-38.

optimum region for economic enterprises is large, Joint enterprises by several local bodies can be promoted. The making of profits by public enterprises has been objected to by some writers as concealed taxation of an undesirable type; but in a country where indirect taxation has necessarily to play a large part, this is probably unobjectionable at present.[14]

Then there is the problem of adjusting public expenditure to cyclical fluctuations. The fact that the investment activities of local bodies are predominant everywhere makes it necessary to coordinate local and control investment properly in long-range planning. Local bodies are largely under the administrative control of Provincial Governments in this country; our proposals above have all been in the direction of increasing the grants to local bodies and of stimulating local borrowing by Central encouragement. The problem of Local-Central conflicts should be easy to solve here particularly if the proper technique for control by guidance and advice from competent Provincial Officers is developed. The question of conflicts in borrowing does not arise here, fortunately, because most local borrowing is from the Provincial Governments themselves.[15] Thus the necessary degree of centralization for a coordinated long-range financial plan already exists here. What is necessary is the adoption of a policy of long-period budgeting by Federal and Provincial Governments.

There remains the fundamental problem of administration. Can the local bodies, whose administration has been full of faction, corruption, waste and inefficiency be relied upon to make proper use of their powers and resources? Opinions violently differ on the point; but there are good reasons to take an optimistic point of view. Self-govern-

[14] W. A. Robson, *Public Enterprise*, p. 390.

[15] As against the advantages of independent local borrowing urged by some authorities, *e.g.*, The Madras Financial Relations Committee of 1920, the difficulties of successfully tapping the money-market and the confusion caused will be much greater. If it is desired that local bodies should not borrow from Provincial Governments, it is better to constitute a central organization for floating local-body loans. Cf. Robson, *Public Enterprize*, p. 388.

ment has never had a real chance in our local bodies. Shorn of power and denuded of funds, there was no attraction for men of merit in them and the field was left clear for self-seekers and opportunists. The electorate did not care very much who went in as the power to do good was extremely limited; nor could these bodies afford an honest and competent staff. Given real power and resources, with sympathy and guidance from above in the place of authoritative interference, there is no reason why the local bodies should not yet prove a success. Some of our districts are as large as States elsewhere; if we cannot find honest and competent people to run our local bodies, how can we find them for our Provincial legislatures and ministries?

SUMMARY

Recent developments in financial policy have demonstrated the extreme interdependence between financial and economic policy and the necessity of utilizing financial policy to mitigate cyclical fluctuations.. They have also revealed the fact that finance is only a means of achieving certain real objectives, for which, if necessary, extraordinary measures bay have to be adopted. A reorganization of financial policy in these directions necessitates the co-ordination of central and local finance. Such co-ordination has been achieved elsewhere by greater revenues being put at the disposal of the local bodies from central sources, and by a unified borrowing and investment policy. It has been argued in this paper that a similar reorientation and reorganization of financial policy is needed in India, and that the reorganization of local finance will play an important rôle in it. The main methods suggested are (i) a substantial increase in borrowing, and public investment, (ii) an enhancement of local resources mainly from grants, other revenues and proceeds in kind, and (iii) the utilization of these additional resources mainly for the servicing of loans and secondarily for current expenditure.

ECONOMIC THINKING IN THE INDIAN NATIONAL CONGRESS

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I

In any estimate of the progress of economic thought in India the part played by the Indian National Congress would be a fascinating study. The Congress was, as it still is, primarily a political organization but in a subject country like India the borderland between Economics and Politics, never very distinct in theory or in practice, is absorbed into the co-ordinated pattern of a national movement so that it becomes still more difficult to separate the two. In initiating and leading a major political struggle the Congress could not ignore its economic background, and from a very early period of its history it found itself drawn into the discussion of numerous economic problems and into the necessity of guiding public opinion with regard to those problems. Specialized associations had not yet taken up the study of such problems so that the Congress, irrespective of the question of competence, and being a forum of national opinion, however crude at the time, was the only organization for a considerable period to give expression to and lead the thoughts of the country. Even now as the representative of the nation and as the nursery of great traditions the Congress commands an importance and its expressions of views a significance which are not equalled by any other association in this country. The introduction of Provincial Autonomy and the fact that till recently it controlled the Ministries of seven Provinces—a control which it can resume any time it chooses—have added to that importance. From being a purely non-official organization

(started originally with official blessings) for the ventilation of petty public grievances, it has become, since its decision to participate in the disposition of public power, something like an *imperium in imperio* whose economic policy like its political programme is bound to exercise a profound influence on the national life of the country. Its Labour Platform, its Agrarian Programme, its views on Currency and Exchange, its declarations on financial adjustments between Britain and India, its support of the *Swadeshi* and the like are some of the directions in which the Congress standpoint is almost certain to influence public policy when power is transferred to India to determine such questions. The economic platform of the Congress will thus indicate not only the contemporary thoughts of succeeding generations of patriotic (even though sometimes misguided) men and women of India but the future lines of the economic evolution of India as a whole.

II

Unfortunately, when we come to look for the economic platform of the Congress, we come up against a formidable difficulty. Is there a well-defined platform of the Congress? Practically the only source from which an authoritative estimate of the Congress economic platform may be obtained is the mass of resolutions that the Congress has from time to time adopted on economic questions as and when they have arisen. Even the Presidential addresses suffer from defects which do not make them a safe guide for such research. Purely political slogans and emotional appeals are to be as much eschewed as abstract generalizations and idealistic outbursts. On the other hand, if we confine ourselves to the resolutions alone, the economic platform of the Congress would appear to be a jerry-built affair. There would appear to be no co-ordination, no attempt to see the problems in their various inter-relations, made more culpable by the fact that there has been no machinery to carry out sustained thinking on difficult questions, no economic Secretariat to help to maintain consistency of policy with due regard to facts—in fact, no 'platform' as such, the Congress having

concerned itself more with expedients than with any long-range plan or policy. This at any rate seems to be the lesson drawn from a study of the Congress resolutions till about ten years ago, when in 1931, at Karachi, the Congress for the first time drew up an Economic Programme together with a list of Fundamental Rights. This was followed in 1936 by an Agrarian Programme adopted at the Lucknow and Faizpur Congresses and in 1938 by the formation of the National Planning Committee under the chairmanship of Pandit Jawaharlal Nehru which arose out of a direction given by the Congress Working Committee at its meeting held in August, 1937, and again in July 1938. Apart from these efforts economic thinking in the Congress has been of a spasmodic nature, or rather, in the nature of reactions to contemporary needs. It must, however, be said that this contemporary bias of Congress thinking has imparted a certain elasticity to the evolution of the Congress programme and may be regarded in the light of a preparatory effort for the more painful and responsible task of the economic reconstruction of the entire life of the nation for it has furnished the Congress with the main ideas of such reconstruction.

Further, it would be wrong to jump to the conclusion that the Congress in its early sessions had given a secondary importance to economic questions or that it had not taken any interest in the advancement of economic knowledge in the country. The leaders of the Congress had never ignored the paramount importance of the economic welfare of the masses, and much of the time of the Congress in its earlier sessions had had to be taken up with such questions as poverty, famines, permanent settlement, land revenue, prohibition, grievances of the Class III Railway passengers, agricultural indebtedness and the like, to take only a few examples at random. A sufficiently wide experience of public affairs, faith in and sympathy for a cause, knowledge and education, courage, high patriotic ideals,—these qualities are quite enough to enable any discerning friend and critic to appreciate the points of view, and the *rationale*, such as there may be, of the different elements of the nation. These qualities were possessed in abundance by the early promoters

of the Congress movement in our country and though many of them had not the expert knowledge and equipment of a trained economist they had each of them a large experience of public affairs which stood them in good stead in judging of difficult economic issues. They themselves were not unmindful of the poor state of economic knowledge in the country. In 1901, at the seventeenth session of the Congress held in Calcutta, a Committee was formed consisting of Messrs B. G. Tilak, M. G. Ranade, B. N. Basu, J. Choudhury, B. Pathak, G. P. Varma, Umar Baksh, Pandit M. M. Malaviya and Lala Harkishen Lal to report to the Congress whether it was desirable to adopt the following resolutions with or without amendments and alterations:

(*a*) That in the opinion of the Congress, much of the present state of economic depression of the country is owing to want of knowledge of the methods of production and distribution which prevail in foreign countries and that it behoves our countrymen to adopt means to bring advanced knowledge and exact information within the reach of the people.

(*b*) That one of the most important economic questions that require solution at our hands is the organization of Capital and Credit, in villages, towns and provinces and the country. This Congress invites the attention of their countrymen to make sustained and extensive efforts to organize Capital and remove one of the many difficulties in the way of improvement of our economic condition.

It is not necessary at this distance to enquire what steps the Congress eventually took to implement the above resolutions which, after all, were merely the statement of certain points of view. The point of interest is that the resolutions indicated a consciousness of a fundamental gap not only in the then existing state of economic knowledge but also of the need for its application to the problems of economic

improvement—a consciousness that something more than a mere expression of views for the benefit of the Government was necessary if the economic conditions of the country had to be improved within a measurable distance of time. But there was still no suggestion that either economic knowledge or economic policy was viewed as a whole nor was there any attempt to build up a school of economics grounded in a knowledge of the latest developments of economic theory and practice and charged with the duty of interpreting the diverse phenomena of Indian economic life in the light of such knowledge.

At first sight, this charge might appear to be uncharitable, if not unfair. Half a century ago, the principal Universities of India were either still very young or yet to be born. Interest in economic studies and research had yet to be awakened and organized. But the awakening came very tardily. It had to come from Indian leaders, for economics as it came to be taught at first was held in the leading strings of British economic thought with its basis in free trade and a competitive regime which so far as India was concerned had spelled only ruin and disaster to Indian industry and trade. The new awakening in India heralded a break-away from these leading strings which did not help but merely impeded. A small band of distinguished Indian scholars and economists, most of whom were closely associated with the Congress, began to preach a new economics for India, an economics that did not merely teach but left a message. In that roll of honour will be found the names of such distinguished sons of India as Ranade, Gokhale and R. C. Dutt. There might have been much in the teachings of these economists that may not appeal to the modern student anxious to study the science for its own sake without any pre-conceived bias; but there can be no doubt that the awakening foreshadowed the advent of a new spirit of criticism, a refusal to accept ready-made doctrines, that is so essential for the dispassionate study of any science. Moreover it indicated the necessity of a historical approach to the study of Indian economic problems, a study that has more than justified itself in the results obtained.

But in spite of all this justification the fact remains that even after an experience extending over half a century Congress economic thought has not yet been able (subject to the exceptions noted above) to give up its old way of what I might describe as compartmental thinking, dealing with problems as they arise, in other words, merely acting as a mirror of contemporary economic ideas, without any attempt to view them in proper relation to each other and to the wider background provided by the social, economic and political system of India to be interpreted in the light of proper economic reasoning. Of the exceptions noted above I might be excused if I make a somewhat detailed reference to the efforts to formulate a national economic platform for the country. The effort, as already noted, has had its genesis in directions given by the Working Committee of the Congress in 1937 and 1938. It was formally inaugurated on the 2nd October, 1938, when Shri Subhas Chandra Bose, then President of the Congress, gathered together a Conference of Ministers of Industries at Delhi which adopted the following resolution:

> This Conference of the Ministers of Industries is of the opinion that the problems of poverty and unemployment, of National defence and of economic regeneration in general cannot be solved without industrialisation. As a step towards such industrialization, a comprehensive scheme of national planning should be formulated. This scheme should provide for the development of heavy key-industries, medium-scale industries and cottage industries, keeping in view our national requirements, the resources of the country, as also the peculiar circumstances prevailing in the country.
>
> The scheme should provide for the establishment of new industries of all classes and also for the development of the existing ones.
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> * * * * *
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> With a view to doing preliminary work for giving effect to the resolutions 1 and 2, this Conference

appoints a Planning Committee, the personnel of which will be announced later by the Congress President.

To enable this Committee to commence work forthwith, the different Provincial Governments are requested to make suitable financial contributions. The Committee will submit its report to the Congress Working Committee and to the All-India National Planning Commission provided for hereafter.

It would be seen from the extracts quoted above that even in 1938, the Congress way of compartmental thinking had not yet ceased to exercise its inevitable influence. While the resolutions talked of a National Plan, it was really an industrial plan that the Conference had been thinking of. The fact that an industrial plan would necessarily have far-reaching influences on other fields of economic activity does not appear to have been adequately recognised or provided for; indeed, the plan itself stood to be frustrated if suitable provisions were not at the same time made for the regulation of trade, tariffs, transport, currency and exchange and the like. It must of course be acknowledged that as the plan gradually unfolded itself to the National Planning Committee, this defect was recognised and the Committee had to go very far beyond the scope of the resolutions of the Ministers' Conference in order to be able to evolve a complete plan for India. The Committee issued a very comprehensive questionnaire and in the explanatory memorandum attached to it defined that the object of a comprehensive National Planning was "to improve the well-being of the community, principally by intensifying the economic development of the community concerned on an all-round basis, in an ordered, systematic manner, so as to observe a due proportion between the various forms of producing new wealth, its equitable distribution among the members of the community, and to secure such adjustment between the interests of producers and consumers, individuals and the community collectively, the present and succeeding generations, as to maintain a proper balance

between these several interests." Again, in the Note issued by the Committee for the guidance of its Sub-Committees, Planning was defined as "the technical co-ordination, by disinterested experts, of consumption, production, investment, trade and income distribution in accordance with social objectives set by bodies representative of the nation." Such planning, the Committee added, "is not only to be considered from the point of view of economics and the raising of the standard of living, but must include cultural and spiritual values and the human side of life." The comprehensive view which the Committee took of its functions was further reflected in the Sub-Committees that it set up. Thus the subject of Agriculture claimed 8 Sub-Committees, Industries 7, Demographic Relations 2, Commerce and Finance 5, Transport 2, Public Welfare 2, Education 2 and Women's Rôle in Planned Economy 1, Total 29. The Note issued for the guidance of the Sub-Committees also carried a Schematic Outline of National Economic Planning which was calculated to remind the members of the different Sub-Committees that they were all working on parts of the same picture.

This in a nutshell was the plan on which the Committee was expected to work. Hardly any exception could be taken to the picture thus presented of the Plan; it was a complete denial of the compartmental tradition and to that extent could be rightly regarded as revolutionary. But it still had some glaring defects, some of which were perhaps unavoidable. The formulation of the Plan was placed in charge of whole-time politicians or at best part-time economists. The politicians were obviously expected to work on it during the few hours or days that they might expect to spend outside of the jails; even then they could not be expected to devote their whole time and attention to the problem. The part-time economists, similarly, were supposed to give their thoughts during those spare hours when they were not required to earn their living. Thus the Committee as originally conceived by the Ministers' Conference was expected to report within four months of the commencement of its sitting. The Committee has now been in existence for about 3 years—its first sitting was held on the 17th

December, 1938—but so far as I am aware even the reports of all the sub-committees have not yet been received. A further criticism that can be made of the scheme is that some of the theoretical implications of the idea of National Economic Planning do not seem to have been realised, particularly with reference to the international background. In all future planning such questions as those of the supply of raw materials, exchange control, economic alliances with political motives, currency manipulation and the like will have to be provided for or against. The whole idea of economic freedom has now changed. Instead of a competitive regime we have regulated production and distribution, both internally and externally. Such a regulated system, so far as the internal economy is concerned, is an aid to planning, but the restrictions imposed on foreign trade are a definite hindrance to the execution of all plans formed on a national basis. In other words, the national plans will have to be related to the international economic complex. Thus the question of the supply of raw materials may have to be settled by a negotiation with foreign countries, and sacrifices may have to be made if due to restrictions on international trade the necessary supplies cannot be otherwise secured. None of the progressive and highly industrialised countries of the modern world can be said to have secured, despite prolonged and earnest efforts, any considerable measure of national self-sufficiency. On the contrary, the United Kingdom, U.S.A., Japan, Germany, and almost all the other industrially advanced countries are highly dependent on foreign markets even for the supply of essential raw materials. This has made trade bargaining as much a political as an economic necessity. On the other hand, the movement in the continental countries of Europe, at first towards agricultural protection and later on towards securing national self-sufficiency, has now turned out to be one of the major causes of the present war.

I must hasten to add that this is an economist's view of the situation, not a politician's. An economist would certainly protest against an uncritical application of phrases like economic nationalism or national economic self-sufficiency. But that does not mean that a country should not

strive after attaining the optimum in the fullest exploitation and combination of its resources together with such assistance as may be necessary and available from foreign countries, taking care that no vested interests are thereby created or allowed to develop. In other words national economic planning should have to be very careful in adjusting the two words "national" and "economic." The economic platform of the Congress does not suggest that it has always succeeded in doing it.

III

The National Economic Plan of the Congress is now underway and when it is completed it would perhaps give us a more or less full picture of the economic thought of the Congress in relation to the diverse problems of our economic life. At present the economic thought of the Congress is to be found in fragments scattered over 56 years of its history and embodied in the resolutions accepted by it from time to time. These resolutions may be classified under two broad heads. Under the first head we shall consider those demands of the Congress that had their origin more in the political system of the country than as an incident of its economic life. That is to say, these demands have arisen out of the political subjection of India. The second group of demands were those that resulted from the economic system of the country. In this section we shall consider the first group of demands.

It was at the seventh session of the Congress held at Nagpur (1891) that the Congress affirmed three-fold causes of the conditions of starvation in the midst of which "fully fifty millions of the population, a number yearly increasing" were dragging out a miserable existence, to be:—

> "(*a*) The exclusion of the people of India from a due participation in the administration and all control over the finances of their country . . . . .
>
> (*b*) The extravagant cost of the present administration, military and civil, but especially the former, and

(c) A short-sighted system of Land Revenue Administration, whereby not only is all improvement in the agriculture of the country, on which nine-tenths of the population depend for subsistence, rendered impossible, but the gradual deterioration of that agriculture assured."

The same sentiments were expressed in a more forcible manner in the Resolution on Fundamental Rights adopted by the Karachi Congress (1931). Similarly in the Note, already referred to, for the guidance of the sub-committees of the National Planning Committee, it was stated that "Real Planning can only take place with full political and economic freedom." It is not necessary to multiply these expressions of opinion for it is well known that it is not possible for the Congress to separate economic thinking from the all-pervasive context of a political struggle, nor is it necessary to criticise this bias, for on the close relation that exists between political and economic emancipation, political leaders and economists are equally united.

Apart from this wider political background, there were other specific issues to which the Congress addressed itself from time to time, which were more or less directly concerned with the political struggle. As long ago as 1906, the Congress had lent its support to the *Swadeshi* movement inaugurated in connection with the anti-partition agitation (Calcutta, 1906). Again, in 1920, the first civil disobedience movement was initiated by the famous Resolution on Non-Cooperation adopted by the Special Session of the Congress held in Calcutta immediately after the Amritsar massacres and reiterated at the 36th session of the Congress held at Nagpur in the same year. The boycott of foreign goods was a principal plank of the non-cooperation platform. The Nagpur Congress, it may be recalled, created the Tilak Swarajya Fund for financing "National Service" and the non-cooperation movement in general, while the operative part of the boycott resolution called upon "merchants and traders to carry out a gradual boycott of foreign trade relations, to encourage hand-spinning and hand-weav-

ing" and in that behalf recommended that there should be a "scheme of economic boycott planned and formulated by a Committee of Experts to be nominated by the All-India Congress Committee." It is curious that the idea behind the movement was advertised to be "to make India economically independent and self-contained." During the second civil disobedience movement (1930-31), not only foreign cloth but the sales of intoxicating drinks and drugs were subjected to an intensive boycott by means of peaceful picketing, on which the Congress could even manage to come to an understanding with the Government. The Karachi Congress noted the results of the movement "with satisfaction." It is not to be supposed, however, that civil disobedience and *Swadeshi* have been the twin children of the Congress. For instance, at its meeting held in July, 1921, in Bombay, the A. I. C. C. actually recommended the postponement of the civil disobedience movements "in order to retain on the part of the nation an atmosphere free from ferment necessary for the proper and swift prosecution of the *Swadeshi*."

Another specific issue on which a political fight used to be staged on an apparently economic front was the iniquitous cotton excise duty which, as the Indian Fiscal Commission pointed out, had "from the first been regarded as a conspicuous example of political domination being used for purposes of economic domination." This formed the subject-matter of a resolution at each of the sessions of the Congress held in 1894, 1895, 1902 and 1911. Similarly in the repeated protests against the Salt Tax, its political importance perchaps overshadowed its economic effects. Looking into the records at random, we find the Congress protesting against the tax in 1888, 1890, 1891, 1895, 1896, 1902, 1903 and 1904. In either case, an economist *qua* economist would find it difficult to justify a major agitation against either tne excise duty or the Salt Tax on any but political grounds. I beg leave to doubt whether, if a Congress Government had been functioning at the Centre, it would have been able to dispense with the necessity of a revenue-yielding tax like the Salt Tax and to make up the loss in other ways.

There is one general problem, as much economic as political, which requires special treatment. It is the problem of poverty. Several generations of economists have tried to assess the national income of India *per capita* but the results show that, if anything, we have deteriorated from the position such as it was in 1891 when the Nagpur Congress had held the opinion that fully fifty million people were dragging a miserable existence on the verge of starvation. This resolution was re-affirmed by the Congress in 1892, 1893, 1896, 1901 and 1902. But as these were the days of compartmental thinking, the remedies proposed used to be of a specific nature, the more common of these being reduction of the cost of administration, fixity and permanence of the land revenue demand and the starting of agricultural banks. There was no attempt to treat the problem in a comprehensive way. It was only when the need for national economic planning was felt that the problem of poverty came to be regarded as the master problem which required all the ingenuity and all the resources of the country. With the dominance of Mahatma Gandhi, a new factor, the *Khadi*, came to be introduced as a sovereign measure for fighting poverty. It was in May, 1922, at a meeting held in Bombay that the Working Committee following the postponement of the civil disobedience movement and in pursuance of the Congress constructive programme, adopted scheme of propagation of *Khadi* with a grant of Rs. 17 lakhs and placed Seth Jamnalal Bajaj in charge of the scheme. As Gandhiji's philosophy of the *Charkha* is now fairly well known throughout India, it is not necessary to dwell at length on the ideology or economic significance of the spinning-wheel. The whole movement was given an added impetus at the Karachi Congress where "the deepening poverty" of the masses was traced to "forced unemployment for want of a supplementary industry during leisure hours" and it was urged that "only the spinning-wheels supply that want on a universal scale." On the basis of this "constructive" programme was intensified the negative programme of the people "refraining" from the purchase of foreign cloth. The owners of indigenous mills were also requested to assist "the great constructive and economic

movement" by (1) giving their moral support to the supplementary village industry of hand-spinning by themselves using hand-spun; (2) by ceasing the manufacture of cloth that may in any way compete with *Khaddar* and to that end co-operating with the efforts of the All-India Spinners' Association; (3) by keeping down the prices of their manufactures to the lowest possible limit; (4) by refraining from using foreign yarn, silk or artificial silk in their manufacture; (5) by exchanging the existing stock of the foreign piece-goods merchants for *Swadeshi* cloths and thus helping them to convert their business into *Swadeshi* and by re-exporting the former; and (6) by raising the status of mill workers and making them feel that they are co-sharers with them as well in prosperity as in adversity. It would not be very much wide of the mark to say that till recently, in Congress economic ideology, all the remedies against Indian proverty had revolved round this sovereign remedy namely, *Khadi*. With the development of a left wing in the Congress, two parallel movements can now be seen within the Congress. While disavowing any programme involving confiscation of property and class-war, the Congress has now recognized the necessity of reorganizing Indian labour, both agricultural and industrial (Nagpur, 1920; Gaya, 1922), and extended a welcome to the movement initiated by the Kisan Sabhas and the All-India Trade Union Congress. On the other hand the functioning of the Congress Ministries in the provinces was taken advantage of for organizing a drive towards national economic planning, and it was characteristic of the new orientation of Congress economic policy that Dr. Meghnad Saha who had strongly criticized the Gandhian philosophy of the *Charkha* was taken in as a member of the National Planning Committee. The Congress has now entered upon a new way of looking at the problem of poverty.

IV

Attention is now invited to the second group of demands made by the Congress. These have been concerned mainly with the predominantly economic problems of the country. It is not possible within the limits of the present paper to

give a detailed estimate of these demands. They cover every variey of economic questions such as fiscal and commercial policy, currency questions, land revenue, excise administration, famine policy, growth of public expenditure, disposal of Budget surplus, Decentralisation, Third Class Railway Passengers, land reclamation, agricultural indebtedness, agrarian unrest, Railway rates, coolie wages in Assam plantations—in fact, there has not been any current economic quesiton of any importance which has not engaged the attention of the Congress at some time or other, and the same thing may be said of the future. In fact, that is one of the reasons why a plea has been made in this paper for the establishment of a Congress Economic Bureau of investigation with a trained personnel which will give continuous attention to economic questions and problems affecting the interests of India and furnish the Congress with the materials necessary for forming a correct economic policy. It is seldom that a man like G. K. Gokhale becomes the President of the Congress or a man like M. G. Ranade can be found on whom the nation can depend for guidance on difficult economic issues.

There are a few points in this connection to which attention may now be drawn.

The first of these relates to a number of resolutions adopted by the Congress from time to time on intricate economic questions which are calculated to create some doubt or confusion in the public mind today. Thus in 1892 when the Herschell Committee had been considering the difficult currency situation that had arisen due to the fall in the price of silver, the Congress which assembled at Allahabad in the year adopted a resolution which merely counselled the Government of India not to take any action "in view of the diversity of opinion that prevails on the currency questions" until the labours of the Brussels Conference had been completed. It is still more surprising to note that, in 1898, when the Fowler Committee had recommended a Gold Standard for India, the Congress, in 1899, vehemently protested against the proposal in the following terms:

(*a*) That having regard to the fact that the principal cause of the loss by Exchange is the steady

growth of the demand on the Indian Exchequer for expenditure in England, this Congress regrets the introduction of a gold standard in India on the recommendation of the Currency Committee for the purpose of preventing loss by exchange, and is of opinion that the new measure is calculated to increase the gold obligations of India.

(*b*) That this Congress is further of opinion that the decision accepted by the Government will in effect add to the indebtedness of the poorer classes in India, depreciate the value of their savings in the shape of silver ornaments, and virtually add to their rents and taxes.

(c) That this Congress is further of opinion that the decision accepted by the Government is likely to be prejudicial to the indigenous manufactures of the country.

Similarly, we find that while the whole country is to-day practically unanimous in its condemnation of the system of permanent settlement, it had been for a long life the policy of the Congress not only to sing pæans of praise in its favour but to urge its extension to temporarily settled areas. Again, with reference to the Punjab Land Alienation Act and other allied legislation, the Congress had at the time found itself a strong critic of the same. In 1909, at its session at Lahore, the Congress wanted an enquiry to be made whether the Act in its actual operation had given rise to "anomalies, hardships and disabilities, calculated to injure the growth and prospects of the agricultural industry and cause discontent among any particular class or section of the community." In fact the Congress opposition to the measure had been made clear even when the Land Alienation Bill had been under discussion in the then Supreme Legislative Council (Lucknow, 1899) while, four years previously, in 1895, at Poona, the Congress had declared that "any proposal to restrict the right of private alienation

of lands by legislation will be a most retrograde measure, and will, in its distant consequences, not only check improvement but reduce the agricultural population to a condition of still greater helplessness." These are some of the views expressed by the Congress which go to show that it had on several occasions allowed itself to be misled, by a superficial estimate of the effects of important economic decisions, into recommending a view that had on a closer study being found to have been wrongly advised.

In spite of these lapses the Congress, one must admit, has on the whole correctly reflected the economic needs of the Indian people, and what is more, succeeded sooner or later in converting even a thoroughly irresponsible bureaucracy to its own point of view in respect of many of its demands. It is not necessary to go into details but anyone who would compare the economic legislation that has been passed during the past half a century with the demands made during the earlier sessions of the Congress will find that many, not most, of those demands have been accepted by the Government. The Congress might indeed have been a very useful organization if it had not been for the insistence of the Congress to place politics before economics (which on the other hand is just what the Congress stands for) and for the obstinancy on the part of the Government never to do the right thing at the right time.

V

This attitude of the Government has had an interesting effect on the economic policy of the Congress. The Congress has now been driven to look upon all the economic problems of the country in an aggressive attitude. Though much of the economic framework of the policy of the Congress is still full of freaks and breaks there is now at least an attempt not to take the problems by their hind legs, as it were, but to turn round and face the whole crowd of them with a whip in hand. The National Planning Committee itself is the result of this new attitude. As has been remarked at the very outset, this development is a marked feature of the recent sessions of the Congress

beginning with the Karachi Congress in 1931. The most characteristic expression of the new attitude is to be found in a resolution passed by the All-India Congress Committee at a meeting held in Bombay in May, 1929. The resolution runs thus:

> "In the opinion of this Committee, the great poverty and misery of the Indian people are due, not only to foreign exploitation in India but also to the economic structure of society which the alien rulers support, so that their exploitation may continue. In order therefore to remove this poverty and misery and to ameliorate the conditions of the Indian masses it is essential to make revolutionary changes in the present economic and social structure of the society and to remove the gross inequalities."

This, then, is the new trend of Congress economics. The Congress has become from a petitioning and prayerful body into a revolutionary organization and its economics is also keeping step with its political evolution. No other association would have been capable of giving this much-needed inspiration for developing that radical outlook without which the colossal problem of Indian poverty could not be faced. The problem must be fought not on a single front but on several fronts. It is only partially a problem for the economist to solve. The Congress as the focal point of the total energy of the nation can alone propose to fight it through a planned attack on all the fronts, political, social and cultural as much as on the economic. The plan has been defined. It is only necessary to place it in competent and capable hands so that each part of the programme may be carried out by men having expert knowledge and able to give proper guidance. So far as the economic aspects of the plan are concerned, a plea has been made in the preceding pages for a Bureau of Economic Investigation which should enlist the services of economic experts of which, whatever might have been the conditions, fifty years ago, India is certainly not deficient to-day. It is regrettable, from this point of view, that so few economists should have

been associated in the work of the National Planning Committee. It is not a grievance but just a reminder lest in excluding the economist the Congress should again go back to its earlier days when, in the absence of expert guidance and co-ordinated thinking, it could not do justice to the difficult and baffling problem of the economic reconstruction of this great and ancient country.

SUMMARY

In this paper, the author traces the salient features of the development of economic thought in the Indian National Congress. The subject includes as it must a study of the Congress economic platform. The author refers to the dictum of the Karachi Congress (1931) that "political freedom must include real economic freedom of the starving milllions" but points out that it is only in very recent years that the Congress has seriously applied itself to the study of the economic problems of India. The author puts forward a plea for the establishment of a standing Bureau of Economic Investigation attached to the Congress which should have a trained personnel to assist the Congress in finding the materials and data on which to broadbase a correct economic policy for the nation. Otherwise there is bound to be a good deal of loose and contradictory thinking on difficult economic problems to which the history of the Congress itself during the last half a century bears a remarkable testimony.

ECONOMIC IDEAS BEHIND THE PERMANENT SETTLEMENT

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Organised economic thought is a by-product of economic practice. Arising as a criticism and comment on existing economic institutions and action, it slowly partakes of the refinements and exactitude of an abstract body of knowledge. Even Adam Smith laid the foundations of our science, only in an attempt to smash the prevailing Mercantilist practices.[1] In India systematised economic thought, similarly, arose towards the close of the last century when a galaxy of scholar-patriots trained in the methodology of Western economic science turned the searchlight of enquiry on the causes of the abysmal poverty of the country. But the economic action (or inaction) which generated those factors leading to depressed economic conditions was itself the result of a body of economic thought, derived from extraneous sources; for, thought and action act and interact on one another. Not much light had been thrown on the origin and nature of the economic thought which preceded economic practice in India in the 19th century. But the Father of Indian Economic History, R. C. Dutt, was aware of it, although he too was inclined to lay emphasis on political and administrative factors. Says Dutt: "Historians of India have not always made it sufficiently clear that British administration in India during the last 150 years has been always shaped by European influences."[2] This paper is an attempt to trace those theoretical influences

[1] C. R. Fay, *Great Britain from Adam Smith to the Present Day*, p. 6.

[2] R. C. Dutt, *Economic History of India—Early British Rule*, p. 533.

on the economic side pertaining to only one subject, the Permanent Settlement.

I

Ever since James Mill stated that zamindarism was born of the "aristocratic prejudices"[3] of Lord Cornwallis, historians after historians have been repeating the view almost as gospel truth. But Sir William Hunter set us athinking when he said, "If there was a great question of administration decided upon what seemed at the time to be sound economic arguments, it was the Permanent Settlement of Bengal."[4] The economic arguments referred to were drawn largely from the existing theoretical works on economics by the Physiocrats and Adam Smith. Montesquieu, by virtue of his spiritual ancestry to the Physiocrats, also occupies a significant place among these "Classicals."

This will be clear when it is remembered that the real author of the Permanent Settlement was not Lord Cornwallis but Sir Philip Francis, the Councillor of Warren Hastings. There was a prolonged controversy between Hastings and Francis on the type of land revenue administration to be adopted in Bengal. Francis always approached the subject from the point of view of theoretical economics. His preparation for the task seems to have been thorough. While a student, he studied Bacon, Locke and Montesquieu and made out elaborate tables of public revenues and systems of taxation in most of the countries of Europe with a view to a diplomatic career.[5] His outlook was that of the French school of Physiocrats—the view that the laws which govern society are eternal and immutable truths, which whether in India or in England, in Timbuctoo or in Paris, it must be folly and ruin to endeavour to amend or to temper.[6] In

[3] James Mill, *History of British India*, Vol. V.

[4] W. Hunter, *Bengal Manuscript Records* (1782—1807), Vol. I, Introduction, pp. 82—84.

[5] Blackwood's *Edinburgh Magazine*, Vol. CIII (February, 1868), p. 157.

[6] W. K. Firminger, *Introduction to the Fifth Report*, Vol. II, p. XVIII.

his controversy with Warren Hastings on Permanent Settlement he invoked the authority of Classical economists in favour of it. "I am sensible," he wrote, "that my opinion on this or any other great question is no authority; I desire therefore to support it by those of men already in possession of the public respect and esteem. I fear no condemnation which may involve me with Doctor Smith, Sir James Stuart and Montesquieu;"[7] and he proceeded to fortify his reasonings with lengthy passages from their works.

Warren Hastings laughed at the theoretical bent of his Councillor. From the start there was no love lost between them. But this personal animosity was much fanned by their economic views which were poles asunder. Francis was imbued with an enthusiasm for international theories. Hastings depended on actual facts of the case and even expediency. " 'I detest general prinicples' is a common motto with him"[8]—was the charge levelled by Francis against Hastings. "More used to the practice of business than to speculation I beg to be excused from discussing these propositions as general and abstract questions; and instead of considering them as principles which are equally applicable to any country, I wish to confine them merely to the revenue of Bengal. The opinions of Montesquieu, Sir James Stuart and Dr. Smith, which are produced . . . may be just as to those countries . . . .; but the case is different in Bengal"[9] was the reply of the Governor-General. But in the end it was the doctrinaire who triumphed. Mill says: "Francis had been treated by the powers which were with anything rather than respect. But his plan of finance was adopted with blind enthusiasm with a sort of mechanical and irresistible impulse."[10]

Reverend Walter K. Firminger, the erudite editor of the *Fifth Report*, is of opinion that Adam Smith's *Wealth of Nations* appeared only in 1776, too late to have influenced

[7] Minute of Philip Francis, 5-11-1776.

[8] Parkes and Meriavels, *op. cit.*, Vol. II, p. 81.

[9] Minutes of Warren Hastings, 12-11-1776.

[10] J. Mill, *op. cit.*, Vol. V, p. 332.

Francis' views and that he took his lessons probably therefore from the French sources, Quesnay, Mirabeau, Turgot and other Physiocrats.[11] In his published work also Francis loves to embellish his ideas on Indian affairs by extracts from the then fashionable French writers.[12] But we do find passages from the first quarto edition of the *Wealth of Nations* being pressed into timely service even in his Minutes written in 1776. The fact is, the *Wealth of Nations* was "printed at the end of the year 1775 and in the beginning of the year 1776,"[13] whereas Francis wrote his Minute only at the end of the year 1776.[14] In between there was sufficient interval for a book to reach Upper India, thanks to the existence of Regimental Book Clubs, whose London agents promptly placed on the table of an Englishman at Calcutta not only the latest books but also important periodicals of the day such as the *Quarterly*, the *Edinburgh*, the *Blackwood*, the *Fraser* and the *New Monthly* within four months and a half of their appearance in England. Long before a book had got into general circulation in England it had been read by the Englishmen at Calcutta and thrown aside.[15]

II

What were these economic arguments for Permanent Settlement which derived their inspiration from Classical writers? The first and foremost related to ownership of land. When the East India Company acquired the Diwani they found themselves in the position of an Austinian sovereign. Like William of Normandy they were the sole

[11] *Fifth Report* (Firminger Ed.), Vol. II, p. xviiin.

[12] *Original Minutes of the Governor-General and Council of Fort William on the settlement and collection of the revenues of Bengal with a plan of settlement recommended to the Court of Directors in January*, 1776 (London, 1782).

[13] J. R. Maculloch's Edition of the *Wealth of Nations*.

[14] The Minute referred to bears the date 5th November, 1776. Vide *Bengal Revenue Selections*, Vol. I, p. 437.

[15] H. H. Spry, *Modern India*, Vol, II. pp. 85-86 (London, 1837).

proprietors of land. But such a view of land tenure, they knew, was ill-devised to achieve economic progress. One-third of Bengal, Bihar and Orissa was lying waste[16] and to turn it into smiling fields a "productive principle" of land tenure was required. Montesquieu had condemned the State ownership of land as Asiatic despotism and Adam Smith had advocated the conversion of Crown lands into private estates; for the magic of private property alone, as Arthur Young said, could turn sand into gold. That every man knew his interest best and in the pursuit of it would do the best for him and the benefits of the nation being the aggregate benefits of the individuals would be at the maximum. This was the central teaching of the *laissez faire* school. Cornwallis wrote that the proprietor, *stimulated by self-interest*, would improve his state to the utmost of his ability.[17] It was in vain that Hastings had tried to convince his Councillor that the zamindar did not know his true interest.[18] Francis continued to urge on the authority of Montesquieu that of all despotic governments there is none which oppressed itself more than where the Prince declares himself Proprietor of all his subjects.[19] Therefore the wisest course sanctified by theory in the glimmering dawns of an age of Individualism and likely to succeed in practice was for the Government to divest themselves of their proprietary interest in the soil and confer it on those who could best perform the social task of bringing about greater economic progress. It need not necessarily be on the zamindars. "It is immaterial to Government what individual possesses the land," wrote Cornwallis, "provided he cultivates it, protects the ryot and pays the public revenue."[20] But who could effect it better

[16] *Selections from the Records of the East India House* (1820), Vol. I, p. 49.

[17] Seton-Karr, *Selections from the Calcutta Gazetteer*, Vol. II, pp. 217-18.

[18] Minute of Warren Hastings, 1-12-1776.

[19] Letters from Francis, Sep. 1777, quoted in Sophia Weitzman, *Philip Francis and Warren Hastings*, p. 74n.

[20] Minute of Cornwallis, 18-9-1789.

than the zamindar with large capital, the apparent equivalent of the English landlord? Such were the avowed objects and great expectations of the Court of Directors in conferring on the zamindars a proprietary right in land.[21] This early principle of economic Individualism as expressed in private ownership of land finds greater and greater emphasis as we follow the course of the Permanent Settlement from the North to South India.[22] In the Report of the Special Commission appointed to introduce Permanent Settlement into the Jaghire in Madras, we find that the classical economic principle embodied in the zamindari ownership of land is enunciated with great lucidity and force.[23] In another part of the same report the Commissioner draws a parallel between the Permanent Settlement and Adam Smith's plan of selling Crown lands with a view to create private property in land.[24] Throughout these early records we find the idea of conferring private property in land so constantly recurring that it leaves no room for doubt that at the time when the Permanent Settlement was inaugurated the intention of the authorities was far from considering the zamindar as a mere tax-gathering official. Farming of revenue was abhorred by Adam Smith who described it as a method approved of by only those who considered the blood of the people as nothing in comparison with the revenue of the Prince. When it is remembered that the economic assumptions of the authors of the Permanent Settlement were those of the classical school, the true view of the status of the zamindar, as intended in 1793 would be found contrary to what the Floud Commission assumes in their report.[25]

[21] Despatch of the Court of Directors. 19-9-1792.

[22] Instructions issued to Collectors regarding Permanent Settlement of Northern Districts (Madras). 15-10-1799.

[23] *Report of the Special Commission on the Jaghire*. 9-1-1802.

[24] *Wealth of Nations*, Bk. V. Chap. II.

[25] *Report of the Land Revenue Commission of Bengal*, Vol. I, p. 17.

III

The belief was that absolute private property in land thus desired containing 'Productive Principle' could be secured only through a Permanent Settlement. This takes us to another fundamental economic principle on which the Permanent Settlement was based, namely, that relating to the duration of tenure. Warren Hastings argued in favour of an annual settlement based on a minute valuation of lands. Philip Francis opposed it on the main ground that temporary settlement did not bring in certainty of revenue, which is a cardinal principle of a sound taxation system. Neither Montesquieu, nor Stuart nor Smith had approved of it. He condemned the idea of a settlement based on a survey and classification of lands, because Montesquieu had said that it involved double injustice.[26] Sir James Stuart, the Scotch Economist, had condemned a temporray settlement of land revenue based on survey not only on similar grounds but also on account of the insuperable difficulties involved in the operation. These views expressed in a Minute were aptly quoted by Francis.[27] Stuart's exposition of the merits of a Permanent Settlement or a very long lease, as for instance, a century as opposed to a temporary settlement similar to the cadastral survey and settlement then existing in France, was also reproduced by Francis.[28] Francis follows up this with a quotation from Adam Smith in favour of the view that in matters of taxation certainty is a much more important canon to be followed than a vain striving after equality of incidence.[29] These arguments drawn from learned authorities of the period had a decisive influence on the Directors. They agreed that "a permanent assessment upon the scale of the present ability of the

[26] Montesquieu, *Spirit of Laws*, Book XIII, Chap. 7. Quoted in Minute of Francis, 5-11-1776.

[27] J. Stuart, *Inquiry into the Nature of Political Economy*, Vol. II, p. 563. Quoted in Minute of Francis, 5-11-1776.

[28] *Ibid.*, p. 578.

[29] *Wealth of Nations*, quarto Vol. II, p. 424.

country must contain in its nature a Productive Principle;"[30] and in their instructions to Lord Cornwallis to effect a Permanent Settlement we find an official composition in applied economics bringing out in bold relief the theoretical background behind their decision.[31]

IV

Does this principle of certainty in taxation apply to zamindars as well as to their tenants; to peishcush as well as rent? This takes us to another vital economic principle involved in the Permanent Settlement. It might, at first, appear as if the logical conclusion of the application of that sound canon of taxation, namely certainty, would be to extend it to the rents also.[32] In fact the Court of Directors seem to have even contemplated such a step at one time.[33] But one main reason why no provision to that effect was made in the Regulations of 1793 has escaped the notice of the investigations of even the Floud Commission. A study of the relevant documents in the light of the economic principles on which they were based would alone bring it out. In the classical doctrine the State had very limited functions. It must not interfere with the affairs of individuals as far as possible. The parties to a contract know their own interest best and would finally come to an agreement which was to the advantage of all. Adam Smith said that the principal attention of the Sovereign ought to be to encourage by every means in his power the attention both of the landlord and the tenant by allowing both to pursue their own interest in their own way according to their own judg-

[30] Remarks of the Court of Directors quoted in Instructions issued to Collectors regarding Permanent Settlement of Northern Districts (Madras), 15-10-1799.

[31] Dispatch of the Court of Directors, quoted in *Fifth Report* (Firminger), Vol. II, p. xvii.

[32] This was the line of reasoning pursued by the Madras Estates Lands Act Enquiry Committee (1938).

[33] Dispatch of the Court of Directors, September, 1792 quoted in *Report of the Land Revenue Commission, Bengal* (1940), Vol. I, p. 75.

ment.[34] How intensely Sir Philip was indoctrinated in this *laissez faire* philosophy is seen when he observed that if the zamindar and the ryots were left to themselves they would come to an agreement in which each party would find his advantage.[35] He desired that the amount of rent to be paid per *bigha* must be settled between the zamindar and his tenant. Government could never descend to the ryots so as to fix any general assessment upon them.[36] Again, more explicitly, he states: "At all events the interposition of Government between them should have no object but to enforce the execution of their respective engagements. To dictate the specific terms of every lease is an invasion of the rights of property in the first instance. It is a business of detail which in no way belongs to Government, which are in no sense equal to it, and which carries a vexatious scrutiny and an arbitrary exertion of power upon the face of it."[37] Lord Cornwallis, though entertaining an enlarged view of the functions of the State, had immense faith in the operation of the law of demand and supply to regulate rents. "Neither is prohibiting the landholder to impose new *abwabs* or taxes on the lands in cultivation tantamount to saying that he (zamindar) shall not raise the rent of his estate. The rents of an estate are not to be raised (by which Cornwallis also meant 'impossible to be raised') by the imposition of new *abwabs* or taxes on every *bigha* of land in cultivation; on the contrary they will in the end be lowered by such impositions; for, when the rate of assessment becomes so oppressive as not to leave the ryot a sufficient share of the produce for the maintenance of his family and the expense of cultivation, he must at length desert the land."[38] Thus Cornwallis trusted to the free play of economic forces to regulate the conduct of the zamindars towards the ryots. But if they did not know heir own interest, naturally laws of

[34] *Wealth of Nations.*

[35] Minute of Sir Philip Francis, 5-11-1776.

[36] *Ibid.*

[37] *Ibid.*

[38] Minute of Lord Cornwallis, 3-2-1790.

economics would assert themselves; the ryot would desert his land and the zamindar would have to lower his rents. Perfect competition and full mobility were the characteristic assumptions of the Classical School.

This firm faith in perfect competition persisted for long.[39] It had disastrous consequences for the masses of Indian peasantry, a parallelism for which can be met with only in the miserable effects of the same policy on the industrial workers of England in the first half of the 19th century. Commenting on this exctreme application of the *laissez faire* theory, F. D. Ascoli says that Cornwallis overlooked the fact that the cultivator is a human being and not a mere economic figment. "The cultivator of Bengal in the 18th century could not live while economic laws ran their course."[40]

V

The inauguration of the Permanent Settlement also involved discussion on important principles of currency from time to time; for, the Permanent Settlement meant a fixed assessment in money whose fluctuations in value should not affect the resources of the State. In the decision to have a compulsory money assessment itself, the early administrators were largely influenced by the dictates of economic theory. The French economists of the period, Turgot and Destutt de Tracy in particular, were advocating the adoption of commuted rents and the abolition of metayage. Adam Smith even attributed motives to the Company's servants in continuing the *varam* or the sharing system.[41] In

[39] *Vide* Report of the Collector of Cuttack, 29-7-1811; Report of the Board of Commissioners for the Western Provinces, 30-5-1815; Letters from the Collector of Cawnpore to Sir E. Colebrook, etc., Board of Commerce, Furruckbad, 1-1-1816; and the book, *Further Inquiry into the Expediency of Applying the Principle of Colonial Policy to the Government of India*, etc. (London, 1828), p. 124.

[40] F. D. Ascoli, *Early Revenue History of Bengal* (1917). p. 70.

[41] *Wealth of Nations*, Bk. V, Chap. II.

a later report on the Permanent Settlement, we find the following passage quoted against rents in kind, obviously from the *Wealth of Nations*. "They are always more hurtful to the tenant than beneficial to the landlord. They either take more or keep more out of the pocket of the former than they put into that of the latter. In every country where they take place, the tenants are poor . . . By valuing in the same manner such rents rather higher than common money rents, a practice which is hurtful to the whole community, might perhaps be sufficiently discouraged."[42]

Aware of the inconveniences caused by fluctuations in the monetary medium, the authors of the Permanent Settlement were concerned with their causes and range of effect. Here again we find the unmistakable impress of the Father of Political Economy. Francis held that money was " the common and universal equivalent of all things alienable " and adopted Adam Smith's view that its value might be altered by two factors, namely, (1) a great influx of precious metals which would alter the nominal, but not the real price, and (2) a heavy and insupportable taxation which compels the producer to raise his prices.[43] In his opinion, the latter was the main factor operating in Bengal since the time of Shuja Khan and with this view his opponents, Hastings and Barwell, for once agreed.

Lord Cornwallis and Sir John Shore also entered into a controversy over the currency question. Shore contended that alterations in the value of silver might render a Permanent Settlement inconvenient. Cornwallis replied that the value of silver was only likely to fall as it had done for centuries past *pari passu* with the increase in the quantity drawn from mines and thrown into circulation and that its benefits might be enjoyed by the landholder.[44]

[42] *Wealth of Nations*, Bk. V, Chap. II. Quoted in *Report of the Special Commission on the Introduction of Permanent Settlement into the Jaghire*, 9-4-1802.

[43] Cf. *Wealth of Nations*, Bk. I, Ch. XI.

[44] Minute of Lord Cornwallis, 3-3-1790. Yet, in the course of a discussion in the legislature on the Report of the Estate Land

Currency theories of Adam Smith are again found prominently discussed in 1812 when the Court of Directors decided against an extension of the Permanent Settlement into Madras.[45] One of the grounds on which they based their opposition was that the time was inopportune, since money had been depreciating in value for the previous 25 years both in Europe and in India. The Board of Revenue at Madras challenged this view.[46] They maintained that it was not true of India; on the other hand, judged by the true criterion laid down by Adam Smith for measuring changes in the volume of money, namely, comparison with its purchasing power in terms of corn,[47] money had appreciated in value here. Hence if there had been a depreciation in the value of money in Great Britain, it could not have been due to increased output of the mines whose effects according to Adam Smith would be universal. Neither could it have been owing to an increase in the volume of paper currency, for the same Dr. Smith had said that the value of money in general was not affected by the use of paper money and an improper use of paper money would only end in its own depreciation.[48] Therefore in Great Britain it must have been only due to the other cause mentioned by Adam Smith for rise in prices, namely, enhanced taxation. Similar instances of rise in prices had been observed even in India, as in the case of tobacco, in Malabar and Canara, and salt in general, where the State levied monopoly taxes. These changes in the value of money brought about by taxation would not embarrass a Permanent Settlement, for the law of supply and demand would function as an unerring apparatus in the automatic exchange control. "That which causes the disadvantage brings with

Act Enquiry Committee of Madras (1939), the then Prime Minister said, "In those days nobody could have any idea of the improvement in the position of zamindars based on prices."

[45] Dispatch of the Court of Directors to Bengal, 15-1-1812.

[46] Proceedings of the Board of Revenue, Madras, 28-1-1813.

[47] *Wealth of Nations*, Bk. I, Chap. XI.

[48] *Ibid.*, Bk. II, Ch. II.

it its own remedy." No doubt the value of precious metals was liable to fall from the same causes that brought it about more than two centuries back. Adam Smith himself had foreshadowed it. But the Madras Board of Revenue felt that was a remote and uncertain contingency which was perhaps as likely to operate in favour of as against the Government. However this time the authorities at home listened to the shrieks of necessity rather than the whisperings of theory.

VI

Another economic principle involved in Permanent Settlement was that relating to distribution of tax burden between different revenue sources. Smith held that in a sound tax system there must be a low direct tax on land so that the indirect taxes may be nourished, for in the latter case the person concerned is taxed in the dark. This conformed to English practice also. In advocating the sale of Crown lands he said that besides the proceeds realised from the sale, there would open in course of time another source. "When the Crown lands had become private property they would in the course of a few years become well-improved and well-cultivated. The population of the country would increase by augmenting the revenue and consumption of the people; but the revenue which the Crown derives from the duties of customs and excise would necessarily increase with the revenue and consumption of the people."[50] The authors of the Permanent Settlement hoped to adopt this principle of "European economy" in India through the Permanent Settlement. "The principle of Dr. Smith's observations is applicable to the sale of Circar or Havaly lands of India—and similar advantages may, in the progress of time, be expected in proportion as the means of acquiring private wealth, of increasing consumption may be obtained by the people."[51] On the adoption of Permanent Settlement de-

[49] *Wealth of Nations*, Bk. V, Ch. II.

[50] *Iibid.*

[51] *Ibid.*, Bk. V, Ch. II,

pended the prosperity not of the agricultural but also of "the commercial part of the people equally"; and it was anticipated by such a principle. "Trade and Manufactory" would flourish in equal proportion. Francis therefore put in a plea for making the actual needs of the State a bed of Procrustes on which to measure out the land revenue.[52]

Later, the Court of Directors complained that this principle had not proved a success in India, as "extra" sources of taxation had not expanded as anticipated.[53] This they urged as a ground against the extension of Permanent Settlement. But the revenue authorities at Madras replied that spectacular results must not be expected of systems of taxation. "Progress of all improvemnets is gradual and its effects are developed by slow and often scarcely perceptible degrees."[54] So far as their experience in Madras went they said the principle had been of considerable success, as the defenders of Permanent Settlement continue to argue unto this day.[55] At any rate, they argued, a temporary settlement cannot bring in an increase in national wealth which a Permanent Settlement failed to do.

VII

Adam Smith, who was invoked to inaugurate the Permanent Settlement, is later on requisitioned by the Court of Directors to support a periodical settlement! In a dispatch to the Government of Bengal in 1812 they wrote that although they were fully sensible of the caution with which the best digested speculations ought to be received into any scheme of practical policy, it was no demerit that the "suffrage" of one of the most enlightened writers on Political

[52] *Fifth Report* (Firminger), Intro., Vol. I. p. cccix.

[53] Dispatch of the Court of Directors to Government of Bengal, 15-1-1812.

[54] Proceedings of the Board of Revenue, Madras, 28-1-1813.

[55] *Report of the Land Revenue Commission, Bengal* Vol. I. p. 32.

Economy might be quoted in its favour.[56] Then follows extracts from Book V, Chapter II of the *Wealth of Nations*, to show that periodical settlements readily suit themselves to changes brought about by currency and progress of society and that participation of the State in the improvements from land is a legitimate interference, especially where economic resources had not been fully developed. They also pointed out how the principle embodied in the Permanent Settlement of approximating it to English mode of taxation had been a failure in so far as revenue from sources other than land had not increased. The reply of the Madras Board of Revenue to these changed views reveals a critical reading of the *Wealth of Nations*. They challenged the accuracy of the Directors in quoting passages torn out of their context in support of a different state of things in India. "Certain it is" they wrote, "that Dr. Adam Smith from whose Treatise on the Wealth of Nations the plan seems to have been taken, whose suffrage at least, and opinions are quoted in support of it, applies it exclusively to the tax of governments upon the clear rent of lands."[57] But in India, they pointed out, land revenue was a proportion of the gross produce and not of the economic rent as in England. Adam Smith was talking of the latter in the passages quoted by the Directors and not of the former which he is treating in a separate section on Taxes proportioned[58] to the produce like Tithes, where he definitely states that it is applied in a number of countries in Asia to the support of the State, but in Europe to the support of the Church only. Even the peshcush would not be covered by Smith's discussion on English land tax proportioned to landlord's (economic) rent, for here it formed two-thirds and more of the net produce whereas in Britain it worked to less than one-tenth in practice. Therefore contended the Board, Smith's arguments for a periodical settlement would not apply to India, where the settlement would embrace the

[56] Dispatch of the Court of Directors to Bengal, 15-1-1812.

[57] Proceedings of the Board of Revenue, Madras, 28-1-1813.

[58] *Wealth of Nations*, Bk. V, Chap. II.

whole of Government (landlord's) rent, absorbing on an average half the produce at least.

It is interesting to note that in their final reply, the Court of Directors gave up all reference to Adam Smith and other theoretical masters. Obviously feeling that they were worsted in the fight, they began to appeal to expediency as the ground of their claim. They even began to contradict themselves and proceeded to argue, 'why wait for "extra" sources of revenue to get ripe for tapping by a Permanent Settlement? Instead, take all from land straightway.' "Intercept a large proportion of the produce of its land and labour, before it was circulated through the community in the way of exchange, and performed in some respects the functions of a reproductive capital." They forgot that they were thereby proposing to kill the goose and take away all the golden eggs at once. Even though in the end the Directors admitted "The true defence of our system of taxation in India is not that it is preferable to any other, when judged according to the generally received principles of Political Economy, nor even that it has been continued because we found it established, but because we consider it to be utterly impracticable to raise the same sum in a less exceptionable way,"[59] it cannot be denied that conditions permitting, they were fully willing to conform to accepted theoretical principles. It was only when their necessities grew so pressing that their arguments knew no economic law.

It is wellknown that the influence of Adam Smith was Continental before it was English. But it is less known that it was Indian even before it was Continental. Long before the *Wealth of Nations* influenced Napoleon through the medium of Mollien, and Germany through the medium of Stein and Hardenburg it had become the financial guide of the Permanent Settlement in India through Sir Philip Francis.

[59] Dispatch of the Court of Directors to Fort St. George. 12-4-1815.

CO-OPERATIVE AGRICULTURAL CREDIT IN ORISSA

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Of the 2638 Co-operative societies functioning in Orissa in 1939-40, 2526 were agricultural credit societies. Of these again, 65 were grain golas and miscellaneous societies, organised on the principle of limited liability. 2461 primary agricultural societies with unlimited liability were in existence for the supply of credit to the agriculturist in Orissa. It would appear from this that a study of the societies last mentioned is virtually a study of the Co-operative movement in Orissa. It is of these primary agricultural societies with unlimited liability that this paper attempts a review.

Even before the passing of the Co-operative Act of 1904, Orissa, then a part of Bengal, witnessed the beginnings of Co-operation under official initiative. Even after the passing of the Act, Co-operation did not make much of headway till 1913, when there were only 94 societies of all kinds in Orissa, due, among other reasons, chiefly to the inadequacy of finance. The first Central Bank was started in 1910, as a financing agency for the primary societies.

TABLE I

Year	No. of societies.	No. of members.	Working Capital (in lakhs of rupees).
1920-21	716	14,851	11·20
1921-22	884	20,617	14·66
1922-23	1139	26,810	19·62
1924	1376	31,582	25·91
1925	1578	35,842	30·09
1926	1877	43,588	37·23

Year	No. of societies.	No. of members.	Working Capital (in lakhs of rupees).
1927	1927	47,134	42·42
1928	1974	49,847	46·32
1929	2024	53,401	50·23
1930	2041	55,969	50·96
1931	2047	56,571	53·38
1932	2008	55,784	50·99
1933	1968	55,022	49·24
1934	1968	53,486	48·16
1935	1965	53,895	46·90
1936	1957	53,078	46·44

It will appear from Table No. I that the movement was rather of slow growth even by the time of the introduction of the Montford Reforms in 1920, though there were as many as 10 Central Banks established by then in Orissa. Since this date, when Co-operation became a transferred subject under a minister, the movement made rapid strides till 1931, when the economic depression began affecting the movement very seriously. In the year 1931, there were as many as 2047 agricultural credit societies with unlimited liability with 56,571 members and a working capital of 53·38 lakhs, which marked the peak of the movement in Orissa. The increase in the number of societies and the growth of working capital were primarily due to the enthusiasm of the department and the central banks anxious to invest their funds. The post-war rising prices also acted as a stimulus in this direction by increasing the economic capacity of the agriculturist. The effects of the economic depression were definitely felt since 1932 and the number of societies, membership and the working capital continued falling year after year, in the midst of which in 1936, Orissa was created a separate province.

TABLE II

Year	No. of societies.	Loans given during the year (in lakhs of rupees)	Total Loans outstanding (in lakhs of rupees)	Overdue (in lakhs of rupees).	Percentage of overdue to debts outstanding.
1920-21	716	6·61	10·40	2·84	27·31
1921-22	884	6·04	13·24	3·12	23·56
1922-23	1139	8·56	17·44	3·91	22·42
1924	1376	7·06	23·04	4·63	20·09
1925	1578	7·93	26·36	6·34	24·05
1926	1877	11·79	32·48	7·08	21·49
1927	1927	9·21	36·75	4·16	11·35
1928	1974	8·55	39·45	3·25	8·23
1929	2024	9·28	43·04	4·97	11·54
1930	2041	7·49	45·08	8·20	18·19
1931	2047	3·20	44·73	13·64	30·49
1932	2008	1·17	42·21	18 29	43·33
1933	1968	0·76	40·01	22·92	57·28
1934	1968	0·63	38·40	27·37	71·27
1935	1965	0·52	36·57	30·02	82·07
1936 (6 months)	1957	0·24	35·84	32·75	91·38

It will appear clearly from Table No. II giving the overdues against the members of the societies and meagre advances made available to the members year after year, that the economic depression dealt a ruinous blow to the Co-operative movement in Orissa.

The precipitous fall in the price of agricultural commodities substantially reduced the paying capacity of the agriculturist and the economic outlook became gloomy. In 1931 the overdues against members were 30·49 per cent of the loans outstanding and they mounted up to 91·38% in 1936. A sum of 117000 was advanced as loan to the members in 1931 and this fell down to only 24000 in 1936. The movement has virtually collapsed. The Annual Reports

year after year went on ascribing the evil to the economic depression and the unprecedented fall in the prices of agricultural commodities.

No doubt, the collapse was very largely due to the depression, but to satisfy oneself with this explanation is to ignore the fundamental defects in the movement and organisation. Even before 1931, the overdues were gradually mounting and the movement was steadily deteriorating. And even after the clouds of depression disappeared, as will be evident from the subsequent Tables, the movement far from showing any signs of improvement, was becoming worse every year. It is therefore very necessary to enquire into the fundamental defects that were eating into the vitals of the movement.

Considering the state of affairs even before 1931, it can be boldly stated, that the mere number and the figures relating to working capital cannot furnish a correct idea, so far as the strength and success of the movement were concerned.

Even before the depression, the collections were becoming poorer year after year and the assets of the Central banks were getting frozen in the societies. The Co-operative movement was experiencing difficulties, and the Provincial government expressed concern at this state of affairs. The rapid increase in the number of societies on unsound foundations was considered to be a weakness in the movement. "I have found it necessary," mentioned the Registrar in the annual report for 1926, "to apply a brake and to discourage mere quantitative progress at the expense of the well-being of the societies." The resolution of the government also ran in the same strain. "The policy of giving first place to numerical expansion and only secondary consideration to internal improvement may, for a time, show excellent results on paper, but is bound to leave behind it disease-spots which, if not eradicated in time, are likely to spread and ruin the whole movement." It was therefore decided that no new societies were to be registered except after very careful scrutiny about their sound organisation. And from this date, further rapid expansion was purposely restricted. The report on the co-operative movement in Orissa does not

consider this rapid expansion to be a significant cause of the breakdown. Proper and vigilant caution, in its opinion, might only have prevented a few societies in economically unsuitable areas, but could not have effectively prevented the deterioration that set in. But then it must be noticed in this connection that lack of adequate supervision over the affairs of the societies on the part of the central banks as also the department had been a common complaint. As early as 1912-13, the Registrar, Mr. Hammond drew attention to this absence of proper supervision. "The working of the societies needs considerable improvement and unless considerable attention is paid to their supervision and inspection, the downward course which they are taking cannot be checked."[1] Negligence on the part of the bank staff was always complained of. Rapid expansion was certainly responsible for this lack of proper supervision and really brought in a weakness in the organisation of the movement.

As early as 1925, a conference of the Assistant Registrars came to the conclusion that one of the major defects in the movement was overfinancing by the central banks. Satisfaction was once expressed that the central banks had been able to attract a good deal of shy local capital to be invested in the movement. But the rate of interest offered by the central banks on deposits was as high as 8 per cent, and it was natural that a good deal of funds must be available at this rate for the central banks. With funds overflowing the banks went on recklessly advancing large sums to the primary societies without proper consideration of the repaying capacity of the members. The rate of interest charged by the central banks was as high as $15\frac{1}{2}$ per cent and the societies naturally lent the money to the members at a higher rate. Indeed, this high rate of interest doubled the capital in six years' time and was certainly beyond the repaying capacity of the borrowers. The policy of "full finance" followed by the department encouraged this overfinancing. It may be an ideal of Co-operation that a member of a society should have no obligations to an

[1] *Bihar and Orissa Annual Report*, for 1926.

outside creditor. Even for social and unproductive needs, he should be able to get the necessary loan from the society. It is also desirable that the outstanding old debts should be wiped out with funds obtained from the society. The department followed the policy of "full finance" to meet all these requirements, and the central banks with a good deal of idle money with them took advantage of this policy. The members of societies are always accused of lack of co-operative spirit and outlook. But the central banks also did not fare better and they were out to make profit at the expense of their societies. There had been differences among Registrars about the desirability of following the policy of "full finance." Apart from the ideals, the circumstances and repaying capacity of the members did not justify such a policy, and instead of creating a feeling of self-reliance among the members, it fostered a sense of carelessness and a false and mischievous sense of relief. "It seems to us unfortunate," remarked the Bihar and Orissa Committee on co-operation in 1931-32, "that the movement in its early stages set before it as a practical policy the repayment of the whole of the prior debts of the members, and even more unfortunate that it contemplated such a rapid improvement in their economic position as to permit purchase with borrowed money of fresh rights in land." The policy had to be revised and "a set of rules for financing primary societies was issued at the beginning of 1931, with a view to restricting loans to advances for the current agricultural requirements of the members and limiting them to the amount which the members can repay out of their harvests.[2]

It must further be mentioned that the haisiyat, *i.e.*, the list of moveable and immoveable assets of the members, was the basis for the issue of loans to them. Assets provided the ultimate security, but did not have any reference to the repaying capacity of the borrower. This haisiyat as the basis for loans encouraged overfinancing on the part of the banks, and there was unfortunately no maximum limit to the giving of loans to borrowers.

[2] *B. & O. Annual Report*, for 1931,

Thus large amounts of loans were granted to members without any reference to their paying capacity. The basis of the haisiyat as the security against loans was no indication of the capacity to repay, which should have been the annual income of the borrower and not the assets held, which again, in many cases, were fictitious. The loans were required to be repaid generally in 5 years' time and the instalments, having no direct reference to income, naturally fell overdue. By 1926, the situation was so serious that "Kists (*i.e.*, instalments) were revised by many banks with due regard to the ability of the borrower to pay out of their income and with due distinction between long-term and short-term loans."[3] It is this revision of instalments which is responsible for showing the low figures of overdue between 1927 and 1929, but those figures certainly are no indication of any improvement in the situation.

There were a large number of societies where "over-financing has been so great and the defaults have become so ingrained that no extension of the period allowed for repayment would be of any avail."[4] But the real evil was that the members were not willing to meet their commitments even if this was made possible for them. The Orissa report on Co-operation mentions that there had been at places propaganda to default or at least postpone payment with a view to securing remissions. In fact the most serious difficulty of the situation was the wilful default on the part of the borrowers. No credit organisation could stand in the face of the borrowers' dishonest and deliberate attempts to evade repaying the loans. A peasantry accustomed to the stress and strain from the money-lenders was prone to all such devices when the creditor was an impersonal organisation, supplying easy money to them. And unless this state of affairs is radically cured, there can be no future for the co-operative credit movement.

This dishonesty had also another aspect to be taken into consideration. "The monopolisation of the bulk of the loans by a small number of rich and influential members

[3] *B. & O. Annual Report*, for 1926.

[4] *B. & O. Annual Report*, for 1930.

(often forming the panches) is an abuse which requires serious attention."[5] Successive annual reports have recorded cases of malpractices. Concentration of large amounts of loans on a few members is by itself a difficulty, since repayment of huge sums was seldom practicable and on the top of that when it was done in collusion with a view to escaping the loan ultimately, the situation was certainly serious. Even in other cases, the office-bearers were either not efficient or did not take much interest in the affairs of the society. "In Orissa, as elsewhere, this neglect and indifference on the part of the panches had full play and themselves having heavily borrowed and defaulted, they ceased to interest themselves in the recovery of overdues."[6]

These were the fundamental factors responsible for the breakdown of the movement. The economic circumstances of Orissa added further difficulties and accentuated the situation. Flood and drought had been rather frequent in their visitations inflicting untold strain on the people, and the annual reports from time to time ascribed the difficulties of the societies to this Vis Major. The lands in major parts do not yield considerable returns and there is scarcely any industry in the province to supplement the income of the people. These were considered as some of the outstanding features making the working of the Co-operative system particularly difficult. But it may be pointed out in this connection that it is no particular merit of a system to succeed in the midst of only necessary and favourable circumstances. It should have been so devised as to serve the purpose in the face of these circumstances, and, then alone, it could have been of useful service to the Community.

In the midst of this breakdown of the Co-operative movement, Orissa was created a separate province in April 1936. At the eve of the separation, it was mentioned in the annual report for 1935 as follows:—

"Even when joined to Bihar, Orissa was known to be ahead of Bihar in some aspects of Co-operation. With

[5] *Bihar and Orissa Annual Report*, for 1930.

[6] *Report on the Working of Co-operative Movement in Orissa*, p. 75.

separation from Bihar and with the accretion of Oriya tracts which formerly belonged to Madras, it is anticipated that Orissa will benefit from the better features of the administration of co-operative department in Madras." The first part of the statement was rather surprising and the second part an expression of good wish, which as subsequent figures will show has unfortunately not been realised.

When provincial autonomy was introduced in 1937, most of the societies in[7] North Orissa were dormant and hardly any of the "living" societies were really functioning. The co-operative movement in North Orissa was completely discredited and in some quarters, there was the suggestion to wind up the movement. The provincial government appointed Dewan Bahadur K. Deishikhamani Mudaliar in November 1937 to enquire into the condition of the movement. The report was submitted in March 1938 and the government have taken certain steps on the basis of the report in 1939.

No significant measures were adopted by the government till 1939 and as will appear from Table No. III, the situation in North Orissa was becoming worse every year, though the state of affairs in South Orissa (Table No. IV) was rather different.

TABLE III

North Orissa.

Year	No. of Societies.	No. of members.	Loan given during the year (in lakhs of Rs.)	Total loans outstanding (in lakhs of Rs.)	Overdue loans (in lakhs of Rs.)	Percentage of overdue loans outstanding.
1936-37	1958	52,964	0·44	34·18	32·44	94·91
1937-38	1950	51,718	0·29	33·02	30·32	91·82
1938-39	1954	51,234	0·18	31·78	31·26	98·36
1939-40	1947	50,550	0·13	24·47	27·22	99·81

[7] So far the review was with regard to North Orissa only, *i.e.*, the portion which was in the old Bihar and Orissa province:

TABLE IV

South Orissa.

Year	No. of Societies.	No. of members.	Loan given during the year (in lakhs of Rs.)	Total loans outstanding (in lakhs of Rs.)	Overdue (in lakhs of Rs.)	Percentage of overdue to loans outstanding.
1936-37	476	17,397	0·98	9·33	7·78	83·39
1937-38	486	17,581	1·91	9·32	6·98	74·89
1938-39	497	18,596	3·09	9·83	6·17	62·77
1939-40	514	19,854	2·91	10·02	5·58	55·69

In contradistinction with the state of affairs in North Orissa, the conditions of societies in South Orissa were improving year after year. The number of societies was increasing, the advances made from year to year to members were increasing and the overdues were steadily falling. It may be rightly inferred that after the shock of the depression, matters were taking a favourable turn. There had been no persistent overfinancing in South Orissa and the rate of interest charged was very reasonable. One remarkable feature further was that there was a maximum limit to the loan in each individual case and therefore debts could not mount beyond the repaying capacity of debtors. To add to these, the money market in South Orissa was better organised and the economic condition of the people was better. These account for the rather encouraging state of affairs, though the situation still very greatly needs improvement.

The Mudaliar report after discussing the causes of breakdown of the movement, expressed its faith in the movement and advocated its resuscitation. "The co-operative idea is essentially sound, though in the application of it we have not been altogether successful."[8] It was recommend-

hereafter is included South Orissa, *i.e.*, the districts which were formerly in the Madras Presidency.

[8] *Mudaliar Report*, p. 95.

ed that in order to provide the credit requirements of the peasants and keep the money-lender under control, co-operative credit movement must be revived.

As a first step in the re-organisation, it was considered necessary to remit the entire overdue interest or a substantial portion of it. In most of the cases, the overdue interests were beyond the capacity of the debtor and were simply unrealisable: hence nothing short of complete remission would be of any avail. The author of the report was conscious of its demoralising effect, but still justified it since "desperate situation requires desperate remedies." Along with this the existing debts have to be scaled down with reference to the repaying capacity of the debtor, after proper enquiry into his assets, liabilities and income. The larger movement of the relief of debts to the agriculturists was sought to be applied in this direction as well. The scaled down debts are to be made repayable in about 15 years' time and wherever possible may be taken by the land mortgage bank. And naturally where there is no hope of improvement in spite of these adjustments, liquidation should be the only remedy. It is certainly desirable that when a revival is to be effected after a breakdown, it should be on as clean a slate as possible.

"The provincial Government reiterated their faith in the co-operative movement and expressed their desire to rehabilitate it in North Orissa, where it had become stagnant and moribund."[9] Accordingly overdue interests from members outstanding prior to July 1935 were remitted and for the subsequent years the interest was calculated at $7\frac{1}{2}$ per cent. An amount of 11,10 thousand rupees was remitted by way of remission which has certainly been a great relief-measure.

After the initial adjustment, the report proceeded to say, advances to the agriculturists should be renewed for urgent agricultural needs to revive confidence in the movement, since the agriculturists were forced to have recourse to money-lenders. The policy of "full finance" has got to be abandoned, and advances have to be restricted to urgent

[9] *Orissa Annual Report*, 1939-40.

agricultural purposes, long-term loans being left for the land mortgage banks. There can be no two opinions about this, when the results of "full finance" had been so disastrous. The rates of interest were usurious at $15\frac{5}{8}$ per cent and the Government have now decided that not more than $7\frac{1}{2}$ per cent can be charged as interest from the members of societies.

Further what is very necessary is that loans to members should not exceed a certain maximum, fixed in the case of each member with reference to his repaying capacity, due allowance being made to the cost of maintenance of his family and other obligatory commitments. One of the salutory features of the movement in South Orissa has been the strict observance of this principle and the lack of this principle was one of the main causes of overfinancing in North Orissa. This provision cannot be too strongly insisted upon. This maximum again is not to be fixed by the Panches, but the financing central bank and the department are to examine every individual case. It is natural therefore that no new societies should be registered except after sufficient training and education for about six months in the principle of co-operation and management and in the realising of common needs.

Being conscious of the inefficiency and indifference of the Panches, the Mudaliar report recommended supersession of such office bearers and the entrusting of the management to competent persons. The report makes a number of recommendations regarding the organisation and management in its various aspects. But except the preliminaries by way of remission and adjustment, nothing further has as yet been done.

There is no doubt that radical adjustment must be made in the overdues before any revival on new lines is possible. But the other side of the picture is not to be ignored. Because of the accumulating overdues, when the kists were revised during 1927 and 1929, to make it possible for the debtor to meet the commitments, the situation did not make any improvement whatsoever. It created the impression that non-payment or postponement of payment would be followed by remissions. The more drastic and radical

remissions made in 1939-40 may make that impression stronger. Though it is very early to pronounce any judgment about the results, it may be no wonder if the situation becomes worse in anticipation of further radical remissions.

A further strict official control in the matter of advances and realisation is necessary, certainly for a very large number of years to come, to make the movement possible and successful. It is very often remarked that unless the co-operative spirit and outlook are properly imbibed, solution of the problem of credit by co-operation is unattainable. "Successive reports bear testimony to the fact that it was difficult to convince the members of societies that their loans were not takavi advances."[10] It is no wonder, specially when co-operation was not built up by the members, but was imposed on them from above. No doubt, the success of societies depend on the co-operative training and outlook; but that does not necessarily mean that it has got to be postponed till such outlook is built up. "Poverty is the greatest destruction of the poor." The successful provision of credit on co-operative lines, by improving the economic position, will gradually create the co-operative outlook. Therefore with a view to the success of the movement, a further stringent control is essentially necessary.

Two considerations stand out as important with regard to advances and their realisation—first, the repaying capacity of the borrower, and second, his willingness to repay. It is important to note that so far as the agriculturist of Orissa is concerned, the two problems are really interrelated. For making the advances, the fixation of the maximum limit in every individual case with reference to his repaying capacity is essential. But "repaying capacity" has no definite meaning, if it refers to the surplus after meeting the expenses of maintaining the family and other obligatory commitments, since in a very large number of cases, such surplus seldom arises. So the real problem is how much can be realised from the borrower by way of repayment of the advances made. No doubt, dishonesty had been rather frequent, and defaults in many cases

[10] *Report of B. and O. Committee on Co-operation*, p. 11.

intentional. But all the same, willingness to meet the commitments depends very greatly on the capacity to repay.

It is suggested therefore that there should be very strict control enforcing repayment of loans. The system now adopted in Burma is of particular interest in this connection. At the time of the harvest, the central bank or the department will collect the produce of the value of the sum due at the annual instalment, before any part of the produce is otherwise utilised by the debtor. The instalments from the borrowers thus realised in produce will be collected in a reserve gola maintained for the purpose and the money will be automatically recovered by the disposal of the produce. This will eliminate default and uncertainty of collection. This system has given very satisfactory results in Burma. It has the further advantage that the department can dispose of the accumulated produce conveniently in a favourable market and at a price higher than what the debtor could have realised. Of course it requires a large number of staff and suitable arrangements for the preserving of the produce; and there may be other administrative complications in this connection. But action in this line with proper adjustments will eliminate the greatest obstacle in the movement and will make the supply of co-operative credit a success.

SUMMARY

The paper attempts a review of co-operative agricultural credit in Orissa.

Co-operation, though started in Orissa even before 1904, did not make much headway till the introduction of the Montford reforms. Since 1920, there was a rapid expansion year after year till 1931, after which under the stress of the depression, the movement broke down. Even after the depression was over, co-operation instead of making any improvement, went on heading year after year to a collapse.

Apart from the ruinous effects of the depression, there were fundamental defects in the movement and its organisation. The rapid expansion and the consequent lack of adequate supervision brought in a weakness in the movement. The central banks with a good deal of deposits, obtained by offering very high rates of

interest, went on overfinancing the societies recklessly. The policy of "full finance" followed by the department to meet all the credit requirements of the members encouraged this overfinancing. There was no maximum limit to loans in the cases of individual members, and 'haisiyat' was the basis for making the advances. This rendered overfinancing all the more possible, without any reference to the repaying capacity of the borrower.

Wilful default or postponement of repayment with a view to obtaining remissions or escaping the debt altogether was a very undesirable and baneful feature. The panches were very often inefficient or indifferent, and, in many cases, themselves being heavy borrowers and wilful defaulters did not take any interest in the societies.

After the separation of the Province, the Orissa Government appointed an expert to enquire into the situation. He advocated revival of the movement, and, as a first step in the reorganisation, recommended remission of all overdue interests and scaling down of the overdue loans, making it realisable over a somewhat long period. The Government have, on this advice, remitted all interests prior to 1935 and reduced the rate of interest to be charged on current advances. And then, the author of the report recommended reviving loans to members only for urgent agricultural needs and fixing a maximum amount in each individual case after proper enquiry into his repaying capacity.

It is however necessary that there should be a system of forcible collection of the annual instalments. The remission of interests may prove unhealthy in anticipation of further exemptions. The instalments should be collected in produce at the harvest time, before any part of the produce is otherwise utilised, and the dues thus will be realised by the disposal of the produce. This system is proving satisfactory in Burma, and it seems desirable to try the system in Orissa to provide co-operative agricultural credit successfully.

RURAL CO-OPERATION IN MADRAS: SOME ASPECTS

BY

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One of the outstanding problems in India demanding for its solution intelligent and sustained efforts is that of rural reconstruction implying all those activities which tend to increase the health and income of the millions living in the eight lakhs of villages. The most striking characteristic of our economic life is the great preponderance of agriculture over other occupations. About 85 per cent of the rural folk are illiterate, poverty-stricken, self-centred. Besides being contented with what they have and immersed in deep-rooted tradition, they have a low per capita income and a low standard of living. Their chronic indebtedness leads to economic deterioration, low production, less consumption and impoverishment of the soil. So the question of efficiency and prosperity of the rural folk is of overwhelming importance requiring the serious care, wisdom and vision of both the Government and the public. The present awakening in India may be regarded as a phase of world-wide interest in land and in the village evinced by the nations all over. The activities for rural credit, co-operation, political propaganda and religious zeal have all intermingled to awaken the country-side. The central idea of village co-operation and uplift is to transform the peasant-farmer and country-dweller into moderately well-to-do persons, to inspire them with a spirit of progress and enterprise and to make them prosperous and happy. In this constructive campaign, not only is the attack to be made along different lines and towards different objectives, but a strong, persistent and well-financed policy is required to galvanise into effectiveness the various elements which carry part of the solution in their several ideals and activities.

We have to recognise the village as a living organism and develop it not limb by limb, but as a whole. The village system must be placed in its regional setting and

should be properly linked with higher units. In spite of its apparent disintegration, the rural community possesses unity and can administer its own affairs efficiently and directly, individually and collectively. The masses must be made to think in terms of the group, are to be stimulated to initiative and effort. Economic dynamics is the great reality known even to the layman. Orientations to the world-economy, attitudes to the agricultural, industrial, financial and co-operative developments have grown into the most common-place pre-occupations of all types of men. With a socially-inclined individualism, the energy of private initiative and the justice of social union may be secured. Through co-operation as much as through other mixed forms of economic and social activity that are being daily created, the best of both the systems can be secured. In India, the efficiency dimension is more important, and the villagers have to organise various forms of co-operative effort to protect themselves against capitalistic exploitation and dangers of industrialism. The movement is an expression of the highest democratic ideal in the economic world and calls forth virtues like honesty, self-help, self-reliance and mutual trust. Thus it can be regarded as the basis of economic, social and educational development.

In the Madras Presidency Co-operation has not affected more than a tenth of the population, and even these are not wholly benefited by it. Though the total number of co-operative societies of different types rose from 13,759 in 1938-39 to 14,466 in 1939-40, as also the membership from 1,042,000 to 1,165,000 and in spite of their total working capital increasing by 6%, the percentage of villages served by the societies in each district is small as detailed below:—

Percentage:	Districts:
Above 60 ...	... South Kanara.
Between 50 to 59	... Coimbatore, Trichinopoly, Salem, Nilgiris, Guntur, Kistna, West Godavari.
Between 40 to 49	.. Tinnevelly, Malabar, Madura, North Arcot, Chingleput, Bellary, Anantapur.
Between 30 to 39	. Tanjore. Kurnool, Cuddalore.
Between 20 to 29	... Chittoor, Nillore, Cuddapah, East Godavari.
Below 20 ..	.. Ramnad, Vizagapatam.

It is interesting to note that agricultural credit societies other than land mortgage banks predominate, numbering about 11,190, while the other 10 per cent of the societies represent agricultural, animal husbandry and cottage industries, small trades, marketing, sales, better-living, thrift, etc., societies. Again, agricultural non-credit societies are the more numerous among non-credit societies.

The departments of the Government which are charged with rural uplift have to utilise the co-operative organisations to the fullest extent, so that several other achievements may follow. The Government can render help in various directions like the granting of financial aid and subsidies, and by giving proper advice and guidance through their staff. Changing times call for a change in outlook. Co-operation is a live and growing movement and it offers a rich field for adaptation and experimentation particularly with reference to rural areas. Hence, mere co-operative orthodoxy should not stand in the way of novel plans being made and experience gained. Though co-operation is not a panacea for all economic ills, one must be conscious of the potentialities of the movement for good. The defects like the lack of suitable persons to run these institutions, general backwardness of the rural population, absence of efficient machinery for propagating the principles and practice of co-operation, to find out credit-worthiness and repaying capacity of the borrowers, to supply needed credit and to make timely recoveries, selfishness, nepotism, incompetence and malpractices among the workers can be removed through rectification, revival, effective supervision and concentrated work of the societies. Then only can the benefits of the movement reach the bulk of the population. Since Co-operative institutions are essentially business organisations and as their running should ultimately devolve on unofficials, it is necessary that the latter, particularly, those intended for responsible posts should be given intensive training. Well-educated, imaginative young men by acting as village guides can raise the moral and educational tone of the members and also help the co-operative societies in the work of betterment through supervision, guidance and direction. Above all, there is need for greater co-ordination between

expert development departments. Besides, in carrying out schemes of rural co-operation and in the great task of ameliorating the conditions of rural populace, the whole-hearted support of non-officials has to be won, while the teachings of experts have to reach the multitudes through the medium of co-operative institutions. There should be judicious allocation of work in the districts through the constitution of Co-ordinating Committees which will enable smooth and harmonious functioning of the departmental heads at the provincial headquarters. Provincial Standing Committees composed of administrators, specialists and representatives of the people have to formulate plans, initiate measures and watch the execution of rural uplift schemes. It is gratifying to learn that various schemes are in operation in this Province to train the staff and others seeking employment. It is needless to say that efficient management and supervision require trained and better-paid men, men with capacity and diligence, who can control credit, advise on co-operative trading, conduct technical activities and carry rural-welfare schemes.

One aspect of the rural problem in the Madras Province is that in recent years there has been a gradual displacement of the area under cereals and pulses by commercial crops like cotton, groundnut, sugarcane and tobacco. The total area under all crops exceeds 36 million acres, the percentage of the area of food crops and non-food crops being 72 and 28, two years back. Moreover, during the past three decades, the population has gone up by 21 per cent. The result of these two factors is an increase in the imports of rice to meet the growing demand. One acre of land per capita is needed for the nourishment of man, 4·2 persons being the average size of the family in India and 5 acres the minimum subsistence family holding. The crop area per capita for India is 0·78 acre and for Madras 0·74 acre. The co-efficient of over-population in India is 1·3 and for Madras 1·35. So the low unit-yields lead to under-nutrition, loss of vitality and disease. Remedies usually suggested are emigration, increased industrialisation to bring about a more balanced economy, pursuit of secondary occupations, reform of agriculture.

Colonisation on co-operative lines may be undertaken so that landless persons may be granted land on temporary lease to be made permanent if they prove to be good cultivators. In this matter, the government has to do all preliminary spade work to make land fit for cultivation and the locality suitable for dwelling, while the societies are to give credit to the colonists to cover expenses of cultivation. Societies of this class at present number only four and hence the need for starting more. In certain districts, on account of prohibition-scheme being in force, some workers are thrown out of their hereditary jobs and to them colonisation-societies will be of immense use. Closely connected with these societies are those for the consolidation of holdings. It is well-known that scattered and dwarf holdings, and the phenomena of land passing out of the hands of agriculturists are obstacles in the way of adopting intensive and scientific farming. The number of co-operative societies functioning for the consolidation of holdings is only twenty-two, but it would be better to consolidate them first before embarking on new ventures. There is greater need for the starting of Co-operative Land Reclamation Societies than for Irrigation Societies in the Madras Province.

Intensive and extensive development of agricultural credit societies is to take place, so that they will become effective suppliers of credit. The number of village credit societies in 1939 was 10,520, while the villages with a population of 5,000 and below were about 51,000. The loans advanced in an year come to about Rs. 150 lakhs and it is calculated that about 6 per cent of the capital requirements of the ryots are met by the co-operative societies. Due to the operation of Debt Conciliation Boards and the Agriculturists' Relief Acts, the capital advanced by moneylenders is going low and hence the need for the starting of more societies and for reconstructing the existing ones. The loan transactions of the present societies are small, as there are other types of credit institutions like the land-mortgage banks, societies for special crops and those for helping the movement and marketing of crops. So, redistribution of the financial activities among different types of co-operative organisations and narrowing down of their

operations is necessary. Mutual trust, mutual knowledge, corporate life can be fostered by members with integrity and character, and this work is easy since in the villages exist identity of agricultural, economic and social interests. There may be one society for each village or a group of villages. Members of these societies may be helped and persuaded to obtain all their financial accommodation from them as far as possible. What is required is the granting of short-term seasonal credit for about an year, and of medium credit for three to five years by the primary societies and central banks. Loans against harvested produce and standing crops are to be confined only to village credit societies, while the sale societies have to deal with the marketing of produce. This divorce does not mean disconnection between the two types. Village societies have to encourage the starting of co-operative godowns and naturally, warehouse receipts become popular for discount and rediscount. They can prepare a forecast of the short-term requirements of their members, draw upon the account sanctioned by the central bank, and advance loans quickly. Similarly, cash-credits from central banks may be obtained by the members of village societies. Practice of controlled credit carries with it training and education to the borrower-member, but should be slowly experimented upon. Agriculture may be promoted in various other ways. Improved varieties of cotton-seed, for example, can be got from Government farms and distributed to members of rural credit societies on condition that produce should be sold through District Marketing Society. In the course of some years, the entire area can be covered. Loans may also be given through credit societies for cultivation expenses. What is important in Co-operative banking is the maintenance of fluid resources and the proper distribution of assets. More than all, the rates of interest should be cheap and inflict no hardship on borrowers, but sufficient to give to societies a margin of about 2% between borrowing and lending rates to ensure safety. In the matter of loans, poorer members deserve better help. More loans are to be issued on personal security of the borrower than on that of immovable property; and there would be no difficulty in this direction if

his re-paying capacity and *bona fides* are fully judged. In case mortgage loans are insisted upon, the borrowers may find it hard to furnish adequate security, and even if they do so, a risk may arise of their passing into the hands of the societies themselves in the event of non-payment of dues. Central banks have to keep a watch over the constituent societies with the help of supervising unions. These measures, if adopted, will place the loan business on a rational basis and will encourage the co-operators to be thrifty, to save and to borrow only for productive purposes. The real position is that "The most embarrassed banks are those which have their assets frozen in irrecoverable long-term loans. It is usual to find that the borrowers, because they are interested in escaping from a particular debt rather than in financing regular production, make no attempt to settle their accounts and to secure fresh money. In many districts of the Province new loans are a mere trickle. The result is that banks which used to distribute five to fifteen lakhs of rupees every year for the expenses of cultivation are lending a meagre lakh or two to ordinary credit societies and to sale societies just enough to market one or two per cent of the total crop." (*Administration Report* of the Registrar of Co-operative Societies, Madras for the year ended June, 1940.)

It has to be remembered that though the by-laws of the primary credit societies provide for borrowing funds to be utilised for loans to members for joint purchase of members' agricultural and domestic requirements, joint sale of their produce, for promoting handicrafts, propagating latest improvements etc., in practice they are found to dispense credit only. But this is a step towards their developing into multi-purpose societies. The rural folk suffer from chronic indebtedness and the oppressing evils resulting from it, and various relief measures and legislative enactments made from time to time, particularly after the depression period have been helpful; and still suggestions are being made to remove the farmers' economic tutelage. In this attempt corrective influences are not only set in motion, but precautions are also taken to prevent the sterilization of private credit. Uncertain returns from land, small-sized holdings and other

socio-economic causes drive the agriculturist to borrow both for productive and unproductive purposes, more often at high rates of interest. It is the small and medium land-holders and occupancy tenants paying rent or assessment from Re. 1/- to Rs. 100/- who form the bulk of the ryot-population and who are the foundation of agricultural and rural industry. The total agricultural debt of the Madras Presidency is estimated at over Rs. 200 crores; and classified according to security, 47% is mortgage debt, 5% unsecured debt and 3% is on the security of movables. Though the debt per head amongst the agriculturists is about Rs. 212/-, the debt per acre is more than Rs. 72/-. The ryots are unable to fall back upon other resources or subsidiary occupations to such an extent as to be self-supporting. It is too late in the day to plead for the contractual obligations of parties affected, for the agricultural prosperity is to be placed above all other considerations. Credit is not a panacea for all the ills of debt, but it goes a great way in cheering up the distressed. The question whether rural co-operative societies should adopt the principle of limited or unlimited liability raises certain issues. But considering the present position of the rural folk it is advisable to follow limited liability policy as it will inspire confidence in them.

Land-mortgage banks are the agency best fitted to give long-term credit to the agricultural and rural folk to enable them to improve their lands. There are in the Province of Madras about 120 primary land-mortgage banks covering 18,020 villages. The jurisdiction of each extends over a revenue taluk. These special institutions with their expert knowledge of the local agricultural and economic conditions should pay more attention to offering the needed credit for the purpose of developing lands, improving methods of cultivation and purchasing land than to giving loans for the redemption of mortgages, the discharge of other prior debts etc. It is obvious that the primary banks borrow from the Central Land-Mortgage Bank. It may be suggested that this class of banks have to extend their helping hand to the poorer ryots by giving them smaller loans for amounts of Rs. 500/- or below. Again, if they choose to adopt the policy of not

giving loans for sums above Rs. 5,000/-, their loanable funds can be utilised for the benefit of a large number of persons. These banks will not hesitate to lend money to the solvent yet needy cultivators who can considerably improve their status through co-operative societies working for agricultural demonstration and agricultural improvements. In this connection, it has to be stressed that better co-ordination of work between Debt Conciliation Boards and land mortgage banks can be achieved by association of the latter with schemes of debt conciliation.

Co-operative Sale and Marketing societies numbering about 150 are playing a notable part in the scheme of rural co-operation in this southern province. The number, extent and nature of operations of the agencies between the grower and the consumer vary not only with the commodity, but within each commodity. Conditions also differ according to whether the produce is designed for internal consumption, export or manufacturer. Monsoons, the quantity of crops raised, their price-levels, extraordinary occurrences like wars etc., equally influence the co-operative activity of sale societies and Consumers' stores. Legislation like the Madras Debt Conciliation Act of 1936 and the Madras Agriculturists' Relief Act of 1938 are also reacting favourably. The main problem in agricultural marketing is to organise the producer in such a way that he receives an increased share of the price paid by the consumer for his product. It need not be stated that on every phase of marketing, finance has a bearing. The average ryot takes advances from various parties and raises his crop. He would be induced to be loyal to his society if he is given timely credit facilities, while at the same time he should also improve his production methods. Difficulties in marketing are the absence of proper specifications, pooling, grading, of adequate accommodation and cheap transport facilities for the produce. Preparation for marketing requires technical skill and experience. The problem of marketing is thus complex. In order to bring about improvement in the chain of assembling and distribution from the producer to the consumer, producers' societies are to be organised and should be linked with consuming centres, markets are to be regulated,

measures and weights are to be standardised, grades for the products are to be determined, market intelligence is to be disseminated etc. The Government have done a service in this matter by enacting the Madras Commercial Crops Marketing and Agricultural Produce (Grading and Marketing) Acts of 1933 and 1937. In 1938-39, loans and sale societies advanced loans to members against produce to the tune of nearly Rs. 95·9 lakhs, but they have not achieved much in helping marketing and sale or to provide godowns. The headquarters taluk society and its branches have not only to supply implements, improved seeds etc., but should also arrange for the grading and sale of the cultivators' produce. In short, they are to deal directly with the wholesalers and consuming markets to dispose of the produce of their members. These taluk marketing societies will do well to develop into general purpose societies dealing in all types of agricultural produce; their position will be strengthened by securing necessary finance from the Central Banks. It will be profitable if the village societies can succeed in persuading their producer-members to carry their commodities to the nearest marketing society or preferably to their branch for being sold. The District Marketing Society can in its turn sell to wholesale merchants. To compete with retail traders, costs must be cut and quality is to be ensured. Thus the produce comes to be ultimately disposed of only to co-operative organisations for the benefit of the members. For special crops like paddy or tobacco which have more than local interest, separate marketing societies can function well if they are started at important centres. Government may give subsidies to the societies in the initial stages. An important and useful innovation would be the granting of warehouse receipts to producers on the pledge of produce stocked in the go-downs, and these should acquire the character of negotiability. Added to this, the Provincial Marketing Officer will be doing a distinct service by guiding agricultural demonstrators in the work of marketing agricultural commodities. If the object is to secure for the members better sales and prices, and for the buyers facilities, Agricultural Marketing and Producers' Co-operative Societies are to be well-organised and technical advice is to

be given to them. For instance, there has been a marked increase in the number and business of milk supply societies marketing milk and milk products to the members or unions. Similarly, producers' selling organisations among fruit-growers and sugar-cane growers may with advantage be worked out. In the districts like Vizagapatam, East Godavari, Kistna, Bellary and Coimbatore, where favourable conditions for the cultivation of sugar-cane prevail, growers' societies and unions are functioning well. They are issuing loans and distributing fertilizers to members and are thus helping them to bring land under intensive and scientific cultivation. Better work has to be done. Sugar-cane, sugar or jaggery can be sold to factories or associations on co-operative lines. In case more Producers' Societies are started, they act as feeders to the Provincial Society. The latter stands the chance of becoming the apex of a series of regional sale societies. But it will be a long way off. It may be mentioned in passing that village societies can supply articles like dhall, ghee, butter, etc., to the District or Provincial Marketing Societies. Co-operative movement is intended not only for giving credit, but also for carrying out agricultural organisation and rural reconstruction, since the producer and the farmer are touched at several points. The main task of the department should be to co-ordinate organisation and finance of marketing. As was already pointed out, the problems of the village are to be tackled on a collective footing.

Primary credit societies are to be re-organised so that they can promote also better farming, better business and better living. Side by side, the existing societies like those for land reclamation, colonisation are to be overhauled and new ones started in such a way that a single organisation will be able largely to cater to the village-needs by joint work, security and responsibility. More than all, joint purchase of agricultural equipment and power machinery will facilitate collective farming. The causes leading to poverty, debt and ignorance can be removed by putting into force the model by-laws of rural societies which contain the essence of multi-purpose societies. A wise choice of certain activities may be done to begin with and in the fullness of time,

all general purposes can be fulfilled. For example, Co-operative societies may conduct adult schools, reading rooms, educate and help members in regard to health, sanitation, maternity, child welfare, first aid, recreation. They can also take up other lines of work as supplying improved seed, manures, implements, promoting agricultural experiments, cottage industries etc. It will be beneficial if rural development committees are set up to work under the control of central banks and receive help from their common good funds in order to attain multi-purpose objects. One condition precedent for their successful working is a full grasp of the conditions and needs of the localities where they serve.

Agriculturists' Co-operative Wholesale Societies play an important part in village uplift. They have to admit individual ryots and societies as members and operate in the localities where special crops grow. It will be advantageous if branches are started at suitable places in the district, so that produce can be stored in them and advances given on the security of such produce. Sales depots will attract cultivators and buyers. Grading of the produce is to be done before sale and export, and business conducted on consignment basis. Inauguration of stores proves a check on profiteering in foodstuffs.

It is a matter of common knowledge that the cultivators who form the bulk of the village inhabitants need a supplementary occupation to add to their meagre income. There exist also those engaged in other professions and cottage industries. Therefore, it is useful to have co-operative organisations to finance and market their products, and to encourage a rapid and flexible development of their industries. A central society has to control and co-ordinate the activities of separate societies for industries like toy-making, bell-metal wares, leather-work. Central Banks and special societies in the district can finance the localised and specialised industries whose products may be sold through district emporiums. Cottage industries to be benefited under such Co-operative organisations should preferably be those that can survive under modern conditions and are of real utility. In few instances,

industries turning out art-articles also require such encouragement.

Organisation and development of hand-loom industry in the Province requires the starting and functioning of more Weavers' Societies. Mills of the South may be coaxed to supply yarn to primary societies and cash credit loans given to the latter for paying wages or buying materials. Moreover, advances on the security of finished products sent to sales or commercial emporiums may be offered. The central banks or the Provincial Handloom Weavers' Co-operative Society at Madras can render much help to these local institutions in various directions—technical, financial and commercial.

Among the agricultural non-credit societies representing many branches of agricultural effort, societies for promoting animal husbandry and cattle-breeding occupy an important place. Government can render help to these by giving the assistance of Veterinary doctor and by granting waste land for use as grazing ground or for raising fodder crops. Societies can even own or hold on lease pasture lands. In rural co-operation, this aspect requires special attention. Formation and functioning of Co-operative Health Societies depends on the initiative and interest taken by the villagers and on their willingness to pay for medical attendance and sanitary services. In the wake of these Better-living Co-operative Societies will follow and will be able to carry out their programme item by item.

Development of Co-operation should form an integral part of any scheme of rural reconstruction. The movement depends for its success largely on persuasion, popularity and publicity. In this specialised work, trained men will be an asset. Education, lectures, demonstrations and propaganda are the media through which co-operative ideals reach the rural inhabitants and a well-sustained campaign be pushed through. Co-operative agency, honest and efficient, proves effective in rationalising our rural economy and in promoting rural welfare. It is agreed on all hands that the economic aim is inextricably mixed up with the social aim. The Co-operative movement should inspire the villagers with its message of self-respect and mutual help

and raise their stature all round; it should also imbue agricultural communities with ideals of service and leadership. The achievements of the present should lead to better work in future, as the defects of the past rectified by experience led to progress of the present. In Madras particularly wide field is yet to be covered. One must admit that there are also limitations to Co-operative activity not recognised by its more ardent adherents. But public opinion has received a strong and wholesome stimulus in this direction. There is already a stir and a new note of hope in the rural areas of this Province. In the course of a generation or two the more intelligent peasants, artisans and village-dwellers may be expected to have a better comprehension of the fundamental principles and practices of the Co-operative endeavour. Though Co-operative movement may not solve all rural problems, it is bound to play a more significant part in improving the physical, material, social and moral position of the rural populations.

RURAL CO-OPERATION IN INDIA.

(A Study in the Theory and Practice of Agricultural Credit Co-operation)

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I

In almost every country of the world the farmer as an individual finds himself compelled to deal with unequal and organised forces that determine the conditions of his prosperity and general well-being. Moreover, since farming is peculiarly adapted to small-scale units of organisation, the benefits of the large-scale organisation can be enjoyed by the farmer only by combining his operations with those of his neighbours. Here then emerges something as great as big business, as stupendous as socialism and yet it is neither. It is rather a real antidote for both because it essentially combines the prime merits of both of them. Co-operation thus makes itself conspicuous by gainfully acquiring the secret of business efficiency without the social costs in class-struggle and human wastage.[1]

Under the impact of the competitive economic life of our times, a rural community invariably needs to have some general co-operative organisation to crystallise its opinions and its needs so as to widen and deepen rural acquaintanceship and to develop the sense of oneness, of unity of purpose and interest. Such a need is supposed to have been largely met by the organisations, such as Grange, The Grain Growers Association of Canada and California Fruit Growers Exchange of Los Angeles.[2]

[1] Nourse, E. G., "The Agricultural Revolution," *Yale Review*, October 1918.

[2] Boyle, J. E., *Agricultural Economics*, Chap. X.

The co-operative movement acquires its real merit in keeping the life on the land on the highest level, in improving it where it is not, 'with a view to keep alive the pride and the prick of those born on the soil. It seeks not only material advantages but culture, civilisation and manhood. It accepts an individual farmer as a starting point and an end of agriculture but recognises his individuality only in a social context.'[3] Dr. Fay is inclined to believe that rural co-operation stands half-way between the isolated activity of an individual farmer and the collective efforts of all the peasants for securing mutual benefits.[4] Rural co-operation thus forms a vital plank of a well-thoughtout agrarian policy in our times. Any attempt at the rehabilitation of agricultural activity and rural social progress must await the co-operative reorganisation of the farmer's business. In the midst of competition and combination which are the twin traits of our modern social life and the large-scale production, the spread of co-operation in agriculture is a great step forward and luckily its progress abroad augurs well for the modern agriculture.

II

There has been a good deal of confused thinking as to the implications of co-operation in the economy of a country. Holyoke, the early writer on co-operation, believes that co-operation is a willing association of individuals which is planned purposely to have the most equitable participation and control of any enterprise. This view embraces only one aspect of economic activity and that is the organisation of production only because Holyoke and his contemporaries were imbued with fears at the rapid rise of capitalism in England which victimised the economically weak in the society. As against this view Dr. Fay looks at co-operation from socio-economic standpoint when he defines

[3] Harris, N., Imperial Conference on Agricultural Co-operation, *Proceedings*, 1940, p. 20.

[4] Fay, C. R., Imperial Conference on Agricultural Co-operation; *Proceedings*, 1940, p. 9.

co-operation as a voluntary association of the weak and the poor. Such an association is founded on the community feeling between its members, and the reward of each one of the members is to be proportionate to the use made of the association.[5] That there is something wanting in each one of these definitions is eloquently brought out by Herrick who tersely defines co-operation as an act of persons voluntarily combined together for the purposes of mutually utilising their own forces and resources under their joint management to their common gains or losses.[6] The *raison d'être* of co-operation is the improvement of social and economic conditions of the individuals by providing for a common ownership of the instruments of production and by creating circumstances in which 'each shall work for all and all shall work for each in the attainment of common need.'[7]

Historically, the genesis of co-operation is to be found in some kind of economic distress—the spur of the necessity which the weak and the economically persecuted feel at some stage of their existence and unite themselves by the chord of common interest. In theory, however, it may be remembered that co-operative organisations could be effectively established in any condition of economic society irrespective of poverty or plenty. In actual practice it is a different story. Cultivators in Germany listened with gratitude and encouragement to Raiffeisen when they were crushed beneath their poverty. They found in Raiffeisen credit institutions a sort of economic panacea.[8] The Rochdale Pioneers sought a miraculous success in their efforts to organise on co-operaitve basis against the spirit of embarrassing capitalism.[9] The weavers of England braved the unadulterated contempt and ridicule of their neighbours

[5] Fay, C. R., *Co-operation At Home and Abroad*, p. 5.

[6] Herrick, *Rural Credits*, p. 247.

[7] Calvert, H., *The Law and Principles of Co-operation in India*, p. 16.

[8] Carver, T. N., *Principles of Rural Economics*, Chapter IV.

[9] Calvert, H., *The Law and Principles of Co-operation in India*, p. 14.

by organising themselves on a common cause. The Irish peasantry got itself resuscitated by organising on co-operative lines when confronted by great ills, such as population pressure, small holdings with poor lands devoted to agriculture and rich lands devoted to grazing.[10] Denmark successfully got over the onslaught of American competition in the early 19th century by taking to dairying as an intensive system of agriculture methodically organised on co-operative lines.[11] In Europe when the farmers were hard-pressed and when their respective governmnts became conscious of their failure to keep the farmers contented by any means, something really great was required of those who were suffering for their very self-preservation. They discovered this in co-operative organisation once and for all. A great reform was thus accomplished in the economic history of the world.[12]

All those who then joined together in a union under the conditions of distress were just those people who lacked capital. The outstanding basis on which they formed the association was the human individual. The cardinal principle of co-operation lies in the fact that the members join the association of their own free will as human personalities on equal status with common aims and aspirations. The one specific condition in the absence of which no co-operation can claim a success is the consciousness of a common need for organisation to accomplish some economic advantage; but a mere consciousness of this kind affords only a sphere for co-operative effort and not a success thereof. Its real success presupposes the inculcation of a real co-operative spirit which eventually involves a strict adherence to co-operative discipline. That it is a voluntary union among its members goes a long way towards strengthening individual responsibility. On this account it has yet to be considered how far the external guidance of the honorary

[10] L. Smith Gordon and C. O'brien., *Co-operation in Ireland*, pp. 10-11.

[11] L. Smith Gordon and C. O'brien., *Co-operation in Denmark*, Chap. I.

[12] *Observations of The American Commission*, Part I.

workers, who are not the members of the co-operative associations, is conducive to the growth of the co-operative movement. Professor Marshall rightly stresses that co-operation is open to all those who desire to really co-operate and who are ready to subscribe to a common contract.[13] But in all such cases the danger to be guarded against is that one with more capital should gain from the need of him who has less of it. Like any other business undertaking it recognises that capital is entitled to a fair interest but it strictly refuses to admit any other rights attached to the possession of capital. A surplus accruing from a co-operative enterprise is not regarded as profits but a reserve to be made use of in times of utmost exigencies where every other thing fails. The very fact that a certain organisation is on co-operative lines necessarily involves that individual opinions and interests sink so well that the entire group of people willingly put up a concerted effort for common objectives and common welbeing.[14] A spirit of loyalty to the group and group-interests and a will to sacrifice for common good lend unimpeachable glory to co-operation and all that it stands for in the economic life.[15] Such a circumstance of combination creates a framework within which grows an unselfish spirit culminating in things higher than mere material. But all the same co-operation is not the ethical movement nor is it a doctrine of philanthropy. By itself it is a serious business undertaking in which cold calculations of gains and losses, strength of character, honesty and a mutual policy of give-and-take among the members account for much of its success. It always mobilises the finer elements in human character to actively help others in a firm conviction that others will reciprocate. Co-operators, therefore, enter into a businesslike contract to which one and all to a party subscribe with the fullest of heart. It has its own set of values which are quite distinct from those we are accustomed to in the capitalist organisation of society.

[13] Marshall, A., *Industry and Trade*, Bk. II, Chap. VII.

[14] *Observations of The American Commission*, Part I, p. 9.

[15] Levy, *Large and Small Holdings*, p. 198.

That co-operation is a great asset to small people and small enterprises is now indisputable. In most of the European countries, in Japan and even in India, small-scale farming with a suffering peasantry was a condition precedent to a successful growth of a co-operative movement.[16] It has proved to be a more profitable method of doing business than the one we are used to under the modern economic organisation. It possesses a peculiar power of making virtues pay in a scheme of rural life directed to "Better Farming, Better Business and Better Living." In a way it holds out a distinct pattern of economic organisation in a capitalistic society inasmuch as it promotes peace as against strife and unselfishness as against the motives of self-seeking. It also stands apart from socialism in so far as it ensures freedom of an individual who is aided to acquire some amount of capital and private property for his use instead of abolishing both of them. It thus aims at establishing peaceful relationships between all classes of people in the structure of our economic society. To this end co-operation presents some salient features all over the world[17]—

(*i*) The members associate with one another by their own choice and they decide for themselves the limit of their group and the type of people who should form the group.

(*ii*) The one-man-one-vote is observed within the election of the management and the decision of policy because the success of venture is as important to the poor as to the wealthier elements.

(*iii*) The object being not the investment of capital for profit but a combination of those engaged in some occupation for mutual benefits; any

[16] Kiyoshi Ogata, *The Co-operative Movement in Japan*, Chap. IV, pp. 84—87.

[17] Linlithgow Committee on Distribution and Prices of Agricultural Produce, *Final Report*, pp. 28—30.

Gray, L. C., *Introduction to Agricultural Economics*, Chap. XXVI.

capital subscribed is treated as a loan upon which a limited and specified interest is paid.

(*iv*) Any surplus profit is returned to the members in proportion to the business they have done with their society.

(*v*) An adequate Reserve Fund is built up from year to year out of Societies' annual turnover with a view to consolidate the financial solvency, it being always understood that co-operation is above all a business proposition required to follow strict business methods and discipline. Sentimentalism and unwarranted altruism in financial dealings have to be meticulously avoided for the larger interests of the movement without inflicting any harm on the true spirit of co-operation.

(*vi*) Those entrusted with its management ought to be the people with honesty, integrity, intelligence and, above all, a great vision of co-operation.

III

Co-operation has taken more than one form in different countries and has also developed in many different ways, but its essentials are common everywhere and the national individuality is reflected in the trend of its progress. Many agricultural purposes, such as the marketing and manufacture of agricultural produce, joint purchase and agricultural credit can be more profitably undertaken by co-operative societies than by individual farmers acting in isolation. In European countries, to name only a few of them, in Scandinavia, France, Germany and Russia, co-operation is now recognised as an important adjunct to successful agricultural business. The outstanding fact however, is the universality of the movement and its phenomenal growth in our times as a result of a certain type of idealism that has given it a more than the economic impulse. In Denmark it was associated with a moral educational revival and a feeling of

patriotism for the reclamation and development of the Danish land. In Belgium, the Borenbond which is so very well known for its system of co-operative societies, has its basis in religious and social culture.[18] On the principle of unlimited liability, Raiffeisen laid the foundation of the co-operative movement in Germany, stressing the importance of character as the basis of co-operative credit.[19] In rural co-operation the lead was mainly given by Germany and Denmark. In Denmark the co-operative movement has successfully played its part in the organisation of societies for grading and marketing of produce. That Denmark is a great exporting country accounts largely for the development of these types of societies. There we come across a large number of 'Single purpose societies' rather than the omnibus type of co-operative societies undertaking all sorts of functions concerning the farmer's life. The result is that a Danish farmer belongs to several co-operative societies. Furthermore, credit co-operative organisations do not occupy a premier place in Denmark as in the rest of the European countries because the ordinary banks, the Rural Savings Banks and the state-controlled Land Mortgage institutions supply an adequate amount of capital which the agricultural industry needs from time to time.[20] On the other hand in Germany the co-operative credit institutions form the rallying centre of the entire movement. In Holland and Belgium co-operation has rapidly progressed during the last quarter of the century due to a strong impetus given to it by the Catholic church. The developments in France are noteworthy. In France as in Germany agricultural co-operative credit was started spontaneously. The Act of 1884 is a great landmark in the history of co-operation in France which gave a legal basis for the system of 'Syndicates Agricoles.' The State helps the co-operative institutions financially and the Bank of France as also the Savings Banks have become the praiseworthy functionaries for the success-

[18] *Agricultural Co-operation in the British Empire, Horace Plunkett Foundation.*

[19] Boyazoglu , A. J., *Agricultural Credit*, Chap. V.

[20] Lionel Smith Gordon, *Co-operation in Denmark.*

ful working of the co-operative credit societies.[21] These developments in Europe should offer a good deal of guidance to India.

IV

In a certain measure the spirit of co-operative activity is distinctively embedded in the social structure of India's life, more particularly in the joint family system of the ancient times and the craft guilds of the pre-British period.[22] During the early years of the British rule some form of indigenous co-operation obtained in India in the organisation of the Nidhis in the province of Madras and an organisation of the common lands of the village for the mutual benefit of co-sharers.[23] At about the same time the Mysore State contrived an association of landlords for attracting more money by the united and organised credit of all its members; U. P. embarked upon a new movement for starting the village banks, while Bengal made the beginnings of the distributive co-operation.[24] Such a sporadic movement, mostly on the indigenous lines, lacked only the initiative, recognition and the encouragement of the state. The devastating famines at about the end of the nineteenth century followed by the emphatic recommendations of the Famine Commission in 1901 stirred the imagination of a body of officials who on their part favoured the formation of sound Credit Associations to materially relieve the listless peasantry of India. Sir William Wedderburn and Justice Ranade have left their indelible footprints in the early history of co-operation in India. The co-operative movement received the official recognition when it was put on a legislative basis under the Act of 1904. The Act was solely confined to the agricultural credit co-operative societies

[21] Otto Rothfield, *Impressions of the Co-operative Movement in France and Italy*, pp. 11—20.

[22] Mukerjee, *Local Government in Ancient India*, p. 131.

[23] Darling, *The Punjab Peasant in Prosperity and Debt*, p. 18.

[24] H. Wolff, *Co-operation in India*, p. 23.

which have always played a very vital part in the rural economy of India. The Act of 1912 replaced the earlier legislation and it also recognised the non-credit co-operative societies as well. From its very inception the movement gathered strength and the number of societies and their membership mounted up phenomenonly year after year. The officials and the public workers displayed an unprecedented enthusiasm in the cause of the movement; the masses looked at it with an air of satisfaction. High hopes were entertained for the early solution of all agricultural ills and the day of an early deliverance from debt was optimistically predicted. These have remained as hopes till to-day.

The expansion of the co-operative movement necessitates a great volume of finance and a vigilant supervision. The central unions and the co-operative banks were thus started to financially strengthen the Primary credit societies in rural areas. The Report of the Maclagan Committee forms an important landmark in the history of co-operation in India in so far as it stressed the desirability of searching for a quality than a quantity in the progress of the co-operative organisations. Under the Act of 1919 when co-operation was transferred to the ministerial control, people were inspired with fresh hopes and ideals and new measures were planned in the provinces so as to reach the promised millennium in the rural India. Bombay enacted a new legislation in 1925 and gave a lead to the rest of the provinces. The movement continued to muster numerical strength till 1930 but the pace of its growth slowed down from 1932 onwards as a result of a severe agricultural depression. The depression further brought to the fore its inherent weaknesses and all the grim consequences thereof. It has now become increasingly evident that its remarkable growth in quantity during the past years concealed within itself the germs of its own destruction. It needs now to be redeemed from its present moribund condition and happily this part of the work is entrusted to the Reserve Bank of India.

V

The most dominating feature of the rural co-operative activity in India is the agricultural Credit Society. The unit

of the agricultural credit organisation is the Primary Society in a village or a group of villages. The Primary Society thus forms the cornerstone of the entire edifice of co-operative activity in the country so much so that the success or failure of the entire movement rests upon the soundness of the Primary Society. The objectives of the Primary Society are many but they are mainly expected to harness to the full the available local resources in men and money with a veiw to build up a living institution in aid of the farmers. The membership of such a society has to be confined to local people who have similarity of status and common interests so as to obviate the danger of the domination of unscrupulous interested parties in the management of the society.[25] On its administrative side the success of the movement chiefly depends upon honesty, mutual watchfulness and the high moral tone among those who man the society. Very often the cases have arisen when the loanable funds of the society have been distributed to the relatives of those who were entrusted with the management rather than to those who really needed the funds.[26]

The bye-laws governing the working of the primary societies vary from province to province but their aims remain essentially the same everywhere, such as (*i*) to encourage self-help, thrift and co-operation among all the members; (*ii*) to disseminate information as to the latest improvements in agricultural practices and to encourage the members to adopt them to their advantage; (*iii*) to borrow adequate funds from members or others in order to utilize them for giving loans to members for useful productive purposes; (*iv*) to act as a corporate agent for the joint purchase of the agricultural, domestic and other requirements of its members and for the joint-stock of their produce; and (*v*) to purchase and own implements, machinery or animals for hire to its members.[27] These are noble objectives indeed

[25] *Maclagan Committee's Report*, p. 11 and *Bengal Banking Enquiry Committee Report*, Vol. I. p. 151.

[26] *Bombay Banking Committee Report*. Vol. I. p. 160.

[27] Hough, E. M., *The Co-operative Movement in India*, pp. 59-60.

and the co-operative movement justifies its existence only to the extent to which it dircets its momentum to an all-sided improvement of the life of its members. The agricultural co-operation must needs embrace the entire problem of the peasant's life and his economy.

In India the co-operative societies are organised on the basis of unlimited liability and hence a compact membership is almost the necessity. But really speaking it does not very much matter whether a society is organised on the basis of limited or unlimited liability so long as it is ably and efficiently managed and the principles of co-operation are properly carried out. In any case it is acknowledged that the 'liability is in inverse ratio to the size of the reserve of the society.'[28] The need for building up a strong reserve is really great for the solvency of a credit society. The co-operative society requires adequate financial resources for its proper functioning and usually they are supplied by the members or by external agencies or by both. The primary societies in India find it always difficult to achieve a local self-sufficiency in matters of finance owing to the poverty of their members. Bombay is the only province where about 1/8th of the total working capital is constituted of the deposits of the members.[29] The habit of deposit banking has to be cultivated for this purpose.

The desirability of creating a strong reserve fund has been already noted and this could be achieved by methodised loan operations involving a good margin between the borrowing and the lending rates compatible with a relative cheapness of credit to the members of co-operative organisations. The most momentous aspect of the co-operative finance is not so much the need for cheap credit as found in France but a need for the supply of a well-controlled credit. Debt is said to multiply *pari passu* with the facilities for cheap credit. The credit policy of the primary society is, therefore, of great significance. In its last analysis the

[28] Hough, E. M., *The Co-operative Movement in India*, p. 64.

[29] *The Indian Year-Book*, 1938-39, p. 409.

concept of the co-operative credit is founded on the collective guarantee of a group. The assets of the societies are rightly described as the "funded honesty of their members."[30] All the same it has to be remembered that the evils of financially starving the farmers exactly at a time when they need them the most are far more injurious than those accruing from cheap credit. Agricultural credit becomes effective only when it is administered in adequate quantity at a time when the farmer needs it most urgently for his farming operations.

VI

Over thirty-five years have elapsed since the co-operative movement was officially introduced in India. All these years it has been supported by the public and supervised by the state. A question therefore naturally arises: What has the movement achieved during all these years?

The co-operative movement has progressed very impressively if it is viewed on statistical basis. The number of primary societies has increased from 843 in 1906-07 to 110,967 in 1936-37, while during the same years the strength of membership and the amount of wroking capital have increased from 90,844 to 4,718,141 and from Rs. 23,71,683 to Rs. 1,01,59,55 respectively. The movement is chiefly an agricultural movement, if it is remembered that more than 86 per cent of the societies are confined to serve the farmers. It may be also noted that our co-operative movement is fundamentally a credit movement because of the aggregate number of agricultural societies about 78·2 per cent are devoted to the loan operations to meet the financial needs of the farmers.

When this imposing array of figures of progress are considered from the point of view of the soundness, and the stability of the societies and the ideals entertained by the sponsors of the movement one is inclined to believe that the

[30] Pantulu. V. R., 'Co-operative Banking in India' in *The Indian Review*, June, 1929.

co-operative movement has belied the public expectations and has hardly scratched even surface of the rural problem. The success of the movement has to be judged (*i*) from the point of view of its actual achievement in supplying adequate current finance to the farmers and the pace at which it has enabled the farmers to be free from their indebtedness; (*ii*) from the point of view of its actual success in ousting the village Sowcar and building up the much needed credit organisation so as to assist the progress of rural economy; and (*iii*) from the point of view of what it has actually done in inculcating the habits of thrift, self-reliance, spirit of social service and a real corporate feeling among the members. If the co-operative movement is against these three-fold settings, it becomes obvious that it has hardly achieved anything worthy of note during these thirty-seven years of its existence. The rate of its progress is only very negligible if we know that it has hitherto touched only about 1·06 per cent of the rural population.[31] During the years 1936-37, of every thousand people, 32·6 per cent of people were the members of a co-operative organisation in the Punjab, 28·3 per cent in Madras, 15·6 per cent in Bengal and 28·3 per cent in Bombay.[32] If we take a rural family comprising five members as a unit for measuring the progress of the co-operative movement, we shall have to admit that only about 6 per cent of the agricultural families are touched by the movement. Thus in spite of all appearances of progress the rate of real progress is very small. The village 'Sowcar' still holds his own because it is he alone who supplies almost all financial needs of a farmer in the way he wants and the time at which he wants. There has been a good deal of social and sentimental adjustments between him and the villager in the midst of all their financial operations, a fact which is of great significance in the history of rural credit in India from centuries past. The co-operative movement has neither been able to substantially affect the position of the 'Sowkar' nor has it succeeded in reducing rural indebtedness. It has not even im-

[31] Banerjea, P., *A Study of Indian Economics*, p. 281.

[32] *Reserve Bank of India*, *Statutory Report*, p. 13.

proved the tone of agriculture, nor has it improved the economic condition of the farmer in India. To what extent do these 'Sowkars' finance the agriculturists is just an item of statistical speculation because data of this kind is not available in our country; but the very fact that the institution of the Sowcars continues to obtain unabated in every Indian village in spite of the co-operative societies offers a reliable proof of its practical utility and its inherent vitality in the rural economy of India; the other way round it marks out milestones in the failure of the co-operative movement.

Of the aggregate capital nearly Rs. $3\frac{1}{2}$ crores represent the paid-up capital, while the remaining form the Reserve Fund. These figures of the paid-up share capital have to be taken with caution because a large part of it might as well mean the inflation of loans administered to the members. The share capital was supposed to be created out of the savings of the farmers by cultivating the habit of thrift; but under the conditions of irresponsible administration on the part of those who are entrusted with the management of societies in rural India, it becomes a task indeed to estimate the real savings of the farmers from the figures of the paid-up capital. In some of the provinces the position has become still more confounding because of the practice on the part of the management to allocate the unrealised profits to the Reserve Funds by a simple book-entry. The consequence is that the amount of the reserve fund has also to be taken with great caution while evaluating the position of any rural co-operative society. It may not be forgotten that the real strength of the co-operative movement lies embedded in the volume of its real funds. The Statutory Report of the Reserve Bank of India makes a very poignant observation on many of these defects of the movement: "The loans outstanding against members amounted to about $24\frac{1}{2}$ crores of which $10\frac{3}{4}$ crores were shown to be overdue. The practice of granting renewals and the procedure followed in one province of fixing demands every year at the time of harvest and counting as overdues only such sums as fall short of the demand makes it possible that the real arrears are still larger and the frozen loans form a large part of the

outstandings."[33] In fact the rate of giving loans appears much faster than the rate of recovering them. This makes for laxity and unpunctuality in matters of repayments on the part of the members of co-operative organisations. On the other hand, the number of defaulters and the volume of irrecoverable loans have been increasing from year to year. That in the face of all these weaknesses, the co-operative societies should resort to frequent paper adjustments in matters of accounts, is a real menace to the rural finance and an act of perjury to the lofty ideals underlying the movement.[34] There also appears a perceptible decline in the working capital represented by the members' deposits and more often than not even these deposits are manipulated by those in charge of the movement.[35] Even where these deposits are real they usually emanate from those who are richer than those who borrow and it is this fact which strikes at the very root of unlimited liability.[36] The principle of unlimited liability fundamentally involves for its successful operation a high degree of integrity, superior sense and a high moral tone among those who form the co-operative societies. In the midst of our grinding poverty, illiteracy and consequent demoralisation of the general tone of living, these traits which make co-operation a success are unfortunately conspicuous by their absence in our country. Moreover, unlimited liability enforced on 'a group of thriftless persons is worth nothing. The membership of a credit society should be permitted only to those who are thrifty enough and honest enough to be credit-worthy.'[37] It being chiefly a structure on a strong social and moral tissue, quite naturally it ought to be spontaneous in its growth and deve-

[33] *Reserve Bank of India. Statutory Report*, p. 13 (Agricultural Credit Section).

[34] Hough, E. M., *The Co-operative Movement in India*, pp. 233—240.

[35] *Banking Enquiry Committee. Minority Report.*

[36] Niyogi, J. P., *Co-operative Movement in Bengal*, p. 24.

[37] Dr. Fay's remarks adapted by Niyogi, J. P., *Co-operative Movement in Bengal*, p. 24.

lopment. But like Japan we have a co-operative movement in India as given to us by our officials and our public workers and not as the one created by the farmers. In short, we have it as dictated from above and not from below. The co-operative law in our country is not the result of the demand from the people but a measure from the state. In this connection Japan and India present a similarity.[38] It may also be emphasised that whereas, in Belgium, Denmark, Italy, Switzerland and France, the co-operative movement was initiated and organised by the farmers for the purpose of better living and better farming and better business and hence they started with the supply and sale societies to be followed by the credit organisations during later years,[39] the history of co-operation in India and Japan tells a different story in so far as it originated as a specific shield of protection against the usury and tyranny of the village Sowcars. Credit societies in our country are, therefore, the starting and the rallying points of all other forms of co-operation. It being so, the important aspects of better farming and better business are more or less neglected and the concept of better living has almost become a myth in actual practice.

VII

We have analysed some major weaknesses in the co-operative movement of our country, which without immediate rectification are bound to spell a great disaster. Co-operation is never expected to bring listlessness, callousness and above all a sense of immense frustration among those classes of people for whom it has been evolved. That this has been a grim reality in our country is not open to any contradiction. It is, therefore, a high time for us to overhaul the entire movement to combat our rural problems with a technique best suited to our own peculiar environment so as to instil life, hope and freshness in the heart of our sunken

[38] Kiyoshi Ogata, *The Co-operative Movement in Japan*, Chap. IV, p. 84.

[39] Fay, C. R., *Co-operation at Home and Abroad*, p. 63.

peasantry. Any scheme of rehabilitation must need take into account the three important aspects, *viz.*, (*i*) to maintain a realistic attitude to the facts as they are; (*ii*) to effectively better the economic life of the farmer by every conceivable means and for this reason to canalise the weight of the entire movement towards better farming, better business and better life of the masses; and (*iii*) to go very cautiously with revolutionary methods sprung from fervent enthusiasm for a drastic change so as to evolve a discreet programme of steady reconstruction. In order to achieve lasting benefits of the programme of reconstruction we have to initially three major problems, namely (*a*) to resolve the problem of overdues and at the same time, (*b*) to build up strong reserves and (*c*) to devise effective means for increasing the repaying capacity of the farmer.

Almost every province in India is confronted by a puzzling problem of overdues and some sort of remedial measures are being adumbrated everywhere. Two measures are very commonly accepted: (*i*) lowering the rate of interest and (*ii*) scaling down the accumulated debts so as to bring them to a level at which they could be reasonably repaid by the cultivators in convenient instalments. It may be admitted that both these methods have failed. Resort to legal action against the defaulting cultivators has very often complicated the movement for the simple reason that the Indian farmers are continuously crushed by the dead weight of unspeakable poverty. The depression and the consequent fall in the prices of agricultural products combined with foreign competition have hit the Indian farmers hard so much so that it has become difficult for them even to defray the cost of cultivation. Whereas the farmers in U.S.A. are safeguarded by President Roosevelt's New Deal and in England by protective tariffs, the farmer in India has been neither effectively assisted nor adequately safeguarded. In the midst of such a forlorn condition of the Indian farmers, the co-operative credit societies appear to have no other easy option than to take possession of the farmers' lands in place of the cash payments for the settlement of the Societies' dues. Lands thus acquired are not easily sold out to other farmers for reasons of the farmers' financial in-

ability to effect purchases; sometimes even social sentiment makes the purchase well-nigh difficult. The result is that the co-operative societies find themselves saddled with huge lands when they so very badly need cash. The cultivators, on the other hand, begin to lose faith in a co-operative movement when the societies legally take away their lands in settlement of their debts. They begin to feel a keen sense of oppression in their dealings with the society. The natural consequence is a general stalemate in the working of the society and a grim sense of frustration in the life of the farmers. If the movement is to usefully survive it shall have to squarely reckon with all such problems and incidentally the losses shall have to be borne by the societies without any grudge. In this connection, Burma offers a good lesson to India because she has steered clear very successfully out of a similar muddle, thanks to the bold initiative and the imagination of Mr. U. Tin Gyi, the Registrar of the co-operative societies in Burma.[40] The most abiding interest of the Burmese plan lies in the formulation of a far-sighted plan directed to recover the accumulated debts in liquid cash without acquiring land and expropriating the members of co-operative societies. The Registrar scaled down the accumulated debts so as to bring them to a level commensurate with the real assets of the cultivators. In the next place, their repayment was distributed over a long period in easy instalments. In doing this the Registrar partly followed the policy of the money-lender which used to be more after the heart of the cultivator. This device is known as the 'hire purchase system of land.' The Registrar tried out this policy with a commendable success because the cultivators responded to it readily and spontaneously for the obvious reason that whereas the money-lenders were proved to be keen on ultimately acquiring the land, the co-operative society considered it only a security against the unpunctuality of repayments by easy instalments.[41] It indirectly offered an inducement to the farmers to repay punctually at stated

[40] Reserve Bank of India (Agricultural Credit Dept.), *Bulletin*, No. 3, p. 13.

[41] *Ibid.*, pp. 15—17.

intervals as they were certain of eventually getting back their land in their sole possession. But in practical life the repayment of debts could not be easily guaranteed without a marked improvement in the business of farming. The Registrar was alive to this aspect of the problem when he made full arrangements for an adequate supply of current finances against the harvest of the farmers. A marketing organisation was also established alongside the credit organisation with a view to realise the loans much easily from the farmers. Credit movement in Burma thus became constructive and the life of the Burmese peasantry became revitalised.[42]

To maintain the strong and the healthy co-operative movement we require a great financial support and a great army of selfless workers. The financial reserve could be built up firstly by economising the expenses and secondly by keeping a substantial margin between the borrowing and lending rates, commensurate with a concept of cheap credit. At the same time, care has to be taken to recover all the loans with punctuality. For this purpose the members of the co-operative societies are to be trained in a sense of moral responsibility and discrimination. The rates of interest ought not to be too low to tempt the farmers to resort to unnecessary borrowings nor too high to scare them away from the societies to the money-lenders. Huge mobile funds will therefore be necessary so far as the credit societies are concerned while the qualities of thrift, self-help and a keen desire for economic betterment shall have to be deeply cultivated among the farmers for achieving the desired end of co-opration.

In any scheme of reconstruction definite provision shall have to be made for supplying a long-term credit to the farmers with a view (*i*) to liquidate the debts and (*ii*) to effect permanent improvements on land for better farming. The ordinary banking institutions of the country could ill afford to lock up their capital with the farmers; even the co-operative credit societies are not suitable to undertake these activities. Some special institution, such as the Co-operative Land

[42] *Ibid.*, pp. 17—20.

Mortgage Bank, should be created to satisfactorily handle all the problems of a long-term credit. It is very desirable to effect a close co-ordination between the societies and such banks on the one hand, and agricultural and co-operative department on the other, so as to develop rural economy on a more synthetic and organised basis. It may be however noted that the Reserve Bank is not permitted under the Act to supply co-operative finance though it has been entrusted with a study of the problem of agricultural credit. In European countries, particularly in France, huge funds are supplied to the co-operative societies at almost a nominal rate by the Bank of France and by the Post Office Savings Banks to cope with the needs of a long-term credit in agriculture. The Agricultural Syndicates in France guide the credit organisations to assist the farmers in permanently improving farming and bettering it as a business proposition. As a matter of fact such institutions would be extremely useful in India. The Japanese Government also helps the co-operative movement by putting at its disposal huge funds of the Post Office Savings Banks at a very low rate of interest, and the result is that the Japanese farmers are much better organised and have a much better tone of living as compared to the Indian farmers. The state has thus actively contributed to the growth and the development of co-operative movement in the European countries as also in Japan, though chiefly it has been spontaneously initiated by the farmers themselves. The state aid has played such an important part in recent years. In a country like Denmark, the state has come in to help the movement after its success was assured while the case of Germany has been quite distinct where the sphere of state activity has been carefully limited with regard to the co-operative movement. So it has been in Belgium, Holland and Italy. In recent years in those countries where agriculture was suffering and where co-operation had made very little progress, the state has come forward to actively help the movement. The most interesting case in this respect is that of U.S.A. where the state has enthusiastically helped the development of the co-operative movement by making a large financial provision for agricultural credit. Developments of this kind elsewhere in the world should be

of great value to India.[43] In India the state has chiefly undertaken the function of a rigid supervision by the Registrar of the Indian Civil Service. For its success co-operation requires a type of enthusiasm which the civil servant hardly supplies. There has been a good deal of agitation against the rigidity of control exercised by the civil servants in India. It is, therefore, important that the official control should be slackened while at the same time, the state should render all possible help to the movement with its vast resources of finance and expert guidance. A progressive deofficialisation of the movement would foster initiative and a sense of responsibility among the members. The acceptance of such a healthy principle is not without its concomitant responsibility, if the movement is to work on sound lines. The non-official and the public workers alike have to be chosen with great care as the co-operative movement requires people with honesty of purpose and a spirit of real self-sacrifice. No less important it is to discipline and train the members of the societies in the principles and the practice of co-operation, in moral obligations and above all in the habit of thrift and self-reliance. Experience reinforces the conclusion that the co-operative movement must shape itself largely according to the material with which it has to deal. More than anything else, it must work for its success in a population that has first been rendered literate at least, if not educated.

Since co-operation embraces within its ambit the whole of village life and its regeneration, it cannot be treated as an isolated unit of rural economy. In our country we have unfortunately commenced at the wrong end in matters of co-operative activity, because we have heralded the dawn of co-operation with the organisation of agricultural credit. The fundamental need of our peasant is not that of credit but of increasing his money-income and thereby augmenting his capacity to pay off his debts. We should have indeed strived at this issue with advantage to ourselves and to the farmers alike but instead of that we have all along con-

43 *Agricultural Co-operation in the British Empire: Horace Plunkette Foundation*, p. 105.

centrated our efforts on doling out credit to our farmers and that too inadequately. The farmers did need credit but they needed to be credit-worthy all the more. The consequence has been a very grim one staring us in our face today that in spite of our pious wish to lift out the farmers from the mire of indebtedness and penury, we have pushed them back into the same pernicious muddle. It is much to be desired that rural co-operation in India should measure its success far more than it does at present by its results in increased production, improvements of agricultural methods and the tone of our rural life than by the mere increase in the number of credit societies and their working capital. We should have, therefore, devoted all our attention to the development of prosperous and progressive agriculture with the help of co-operative organisations, credit movement being kept complementary. The business of farming has to be first improved in order to secure the peasant's life against exploitation by other highly organised interests. There is plenty of room for such an improvement and the reduction of the costs of production; but 'if there is not a system which enables the farmer to purchase economically and to manufacture, grade and dispose of his produce to the consumer with as few intermediate charges as possible, the industry of agriculture misses an essential condition of security.' In the same way, better living presupposes the sound basis of economic security. It is widely known that the major agricultural countries of Europe have been developing a very efficient system of co-operative organisation for the purchase of requirements and marketing of produce and that this system has been greatly assisted by the growth of rural co-operative credit and co-operative insurance. The base of the co-operative movement has therefore to be necessarily widened in our country so as to comprehend every aspect of the farmer's life. Whatever helps to improve the economic condition and the moral tone of the Indian farmer should form the contents of a programme of co-operation in India. We have in view that stage of co-operative development in India, where we might have prosperous, progressive and thriving agriculture with peasantry economically well-off and politically articulate.

SUMMARY

The farmer requires to combine with his neighbours if he desires to be protected against the organised forces and interests in a competitive economic world of to-day. Co-operation essentially caters to this type of need of rural population with a view to maintain the life on the land on the highest level. Rural co-operation, therefore, is of immense significance in the agrarian policy of any country.

The '*sine qua non*' of co-operation is an all-sided betterment of the life of individual farmers working in combination with others for the attainment of their common ends. In almost every country of the world, the co-operative movement has grown out of the economic distress though there is nothing to refuse people to unite together in a co-operative organisation even under the conditions of plenty. Such co-operative organisations mould themselves differently in different countries of the world according to the needs of the people and the circumstances of each country.

The co-operative movement is purported to eliminate the evils of isolation by creating joint and effective resistance to the forces of competition, thus evolving a corporate action of the members so organised for their mutual benefits. In such a union, the personality of every individual member is highly valued and yet at the same time, each member is required to observe a strict code of co-operative discipline. Loyalty to the group and the group interests and the honesty of purpose on the part of members and administrators alike are of outstanding value in the successful working of the co-operative movement. It may be remembered that a co-operative union is voluntary and spontaneous.

Though the spirit of co-operation obtained in India's social structure, the co-operative movement was officially initiated in the year 1904. Its basis was further widened by the Act of 1912 and the movement as a whole got a fillip under the Provincial Autonomy of 1919. The movement has continued to grow but still, it is not so well developed as to better the economic conditions of the Indian farmers. During all these thirty-seven years, the entire movement has grown on quantitative lines rather than in qualitative aspect. In the next place co-operation in India has been chiefly confined to credit, with primary societies as the nucleus of the whole structure. If in our country, the rural co-operation is to be judged from the point of view of its actual achievement in agricultural production or in the economic as well as the moral uplift of the farmers, one has to confess that the movement has done little to boast of, even at the end of 37 years of its existence. The movement has also failed in supplying adequate finance to the farmers. Rural indebtedness has been mounting up from year to year in spite of robust optimism of its

early protagonists; the village 'sowkar' has not been still dislodged from his traditional position of vantage in the rural economy of India. It has even failed in creating a moral and cultural background among the peasants of India. On the contrary, it has become a matter of grim reality to admit that the amount of reserve fund shown by various societies very often smack of manipulations. Unpunctual repayments have been a common feature, while the principle of unlimited liability has not worked out successfully in the absence of the real co-operative education among the members. The overdues are mounting up every year and the tone of agriculture in our country has not been improving in any wav. The consequence is, that listessness and a sense of frustration have overtaken our farming community. The need for reconstruction, therefore, cannot be underrated in our country. In a programme of rehabilitation, Burma and many European countries offer very valuable lessons to India, if we are at all serious to revitalise our co-operative movement so as to have prosperous agriculture with economically well-off peasantry.

REVISION OF THE RAIFFEISEN SYSTEM

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The Raiffeisen system of co-operation has been long held up as the model for India, as well as for other agricultural countries where peasant proprietors abound. The main features of the Raiffeisen societies as depicted by J. R. Cahill may be summed up as follows:

> (1) Limitation of area so as to secure mutual knowledge among members. (2) Unlimited liability of members. (3) Promotion of moral and material interests of members by undertaking the supply of agricultural requirements, processing and sale of produce. (4) Honorary services of office-bearers. (5) Loans only for production or provident purposes repayable in instalments over relatively long periods. (6) Low shares, small dividends and indivisible reserve fund—all with a view to discourage profit-seeking.

These principles have not been questioned, though they were by no means strictly followed, by a generation of co-operators in India. Only a deviation was permitted from the fifth of the above principles as a concession to the different social conditions in India. Loans could be granted, though on a limited scale, for socially 'necessary' purposes even if they be unproductive. This was liberally interpreted, loans were granted freely for ceremonial purposes, recoverable in seven to ten years. Most of the so-called productive loans were utilised for paying off prior debts or for celebrating social functions and could not be repaid in time. As overdues mounted up, and financing banks refused to grant any longer loans for long periods

from out of deposits received for short periods, this abuse was to some extent checked—but often too late. Many societies had to be liquidated and several remained dormant. The economic depression hastened the decay which had already set in due to the inability of an impecuous peasantry to live up to the high standards set up by Raiffeisen—which, however, were reiterated as the only sound canons to follow, irrespective of time, place and people. There was really need for a bold examination of the Raiffeisen principles, even as the principles of Rochdale Pioneers have been examined in national and international co-operative circles in Europe.

Such an examination was attempted by the Committee on Co-operation in Madras presided over by Sir T. Vijaya-raghavacharya, whose report was published last year. The Government of Madras have not yet announced their views on what might look like revolutionary recommendations made by the Committee, though action has been taken on a few minor points by amendment of rules. To start with, the Committee had to face the following facts. There were about 12,000 credit societies in the Presidency, seeming to serve a fourth of the total number of villages—not a bad record numerically, as even Germany had only 17,000 societies after 60 years of effort with a population more homogeneous and far more organisable. But in Madras only 300 societies were thoroughly good; 1,530 were utterly bad and had to be liquidated. The rest, 8,200 societies, were far from satisfactory and many were moribund. The Registrar found by investigation that 1,200 societies whose realisable assets exceeded outside liabilities could be revived; while 1,800 societies in which realisable assets were insufficient to discharge outside liabilities had little chance of survival. If 30 to 50 per cent of societies could not be saved, there must be something fundamentally unsuitable in the system for this country. The Government which appointed the Committee were anxious to expand the movement, if necessary in a modified form, especially as there was a serious contraction of individual rural credit as a result of the passing of the Agriculturists' (Debt) Relief Act in 1938.

The Committee, after more than a year of investigation and discussion, reported suggesting ways of rehabilitation of old societies and presented a programme of expansion so as to bring every village in the Province within the ambit of a co-operative society. It was felt that a radical revision was necessary of the system so long tried and found wanting. The drastic changes recommended, with a wealth of data and reasoning, relate to (1) Area of Operations, (2) Nature of Liability, (3) Purposes to be served, (4) Employment of Paid Staff. Each one of these deserves a detailed study by economists as well as co-operators in India.

1. *Area of Operations.*

The Raiffeisen rule was 'one village, one society.' It is only in a limited area that members could know and watch one another and undertake unlimited liability, which in turn would foster mutual knowledge and control. Raiffeisen expected members 'to live under similar conditions and have active economic and social intercourse with one another.'

The Madras Committee is not in favour of small village societies, one for each village. It recommends the amalgamation of existing small societies and the organisation in future of one society to serve a group of villages within a radius of 3 to 5 miles—though a large village may have a society of its own. Most of the existing societies are bad and they cannot be pulled up if they continue to be small. To the effects of economic depression were added those of mismanagement by the Panchayats, abuses by members and desertion by the well-to-do fearing enforcement of unlimited liability. Many credit societies were also losing good business, because of the advent of land mortgage banks, loan and sale societies, and special crop societies of cotton, groundnut and sugar-cane growers. The Committee also felt that not all members of societies were fit to continue, nor all the villages fit to to be admitted. But it was anxious to extend the benefit of co-operation to villages so far unserved. Such amalgamation and expansion would fetch more business, especially of supply of agricultural requirements and would enable employment of paid staff, selection

of better personnel for the panchayat freed from the fetters of local faction.

We may not share the optimism of the Committee that in five or ten years the country would be covered with a network of co-operative societies, without some sort of benevolent compulsion which it would not countenance. We cannot adopt, on the other hand, as a working principle the objective enunciated in the Bulletins of the Reserve Bank that a society should find 'a place for every one in the village' and "raise the lowest to the level of the most efficient." This is not less utopian and dangerous than the ideal of finding every village in the orbit of a co-operative society within five or ten years.

We cannot grant that, as at present constituted, "the village in India has been a unit of corporate activity." In ryotwari area, a village is the unit of revenue administration. It may, or may not, be a habitation unit. The boundaries move with the policy of retrenchment or expansion in the staff of village officers. A village is often not a geographical or social entity. It is a cluster of hamlets round about a 'Kasba,' whose inhabitants do not have an identity of interests. There are differences among Hindus and Muhammadans, caste-Hindus, and Harijans, among landholders, tenants and labourers. Separate societies have been recommended by the Committee for scheduled classes, who in many villages constitute 25 to 30 per cent of the population. In Ceded Districts a village has a few big landlords with a number of hangers-on and labourers. In Malabar, as in Bengal, the village hardly exists. It is just an extent of country in which houses are dotted all over. Why should we, in the face of these facts, insist on "one village, one society?"

2. *Nature of Liability.*

The recommendation of the Committee that has shocked old co-operators is that on liability. Rural credit societies are to adopt limited liability normally, but the Registrar can permit unlimited liability if local opinion urges it. The enforcement of latter liability in recent years has soured the minds of non-borrowing and non-defaulting members. It

has scared away substantial ryots from coming in and some of those who had been in were tempted to alienate their lands fearing liquidation. The proportion of recoveries to the amount of contribution levied by the liquidator was very small. It was a contributory liability which could be enforced only after liquidation of the society. This was felt as a handicap by the financing banks which wanted a *carte blanche* in recovering its dues. This would only penalise the honest, provident but not overwatchful members who stayed on. Already personal security, mutual knowledge and control did not count for much in the rural credit societies of Madras as only 44 p.c. of loans were given on personal security while 56 p.c. were given on mortgage of land of the borrower.

A section of the Committee feared, like the Reserve Bank Officer in charge of Agricultural Credit, that any limit of liability of primaries would arrest the flow of funds into financing banks. But it is really not so much the unlimited liability of village societies that attracted deposits as the reputation for good management of central banks, the faith in Government audit and the feeling that Government would not let down depositors in the event of any crash. Unlimited liability had no doubt operated as a moral pressure on well-to-do panchayatdars, who in the last resort, paid back their own dues and enforced repayment of dues by others who were solvent. This weapon the central banks would be reluctant to give up; and they would not like to engage more staff or exercise more care in granting loans to societies. The Townsend Committee said that central banks had "an exaggerated sense of security based on a wrong impression of the implications of unlimited liability and failed to realise the seriousness of enforcing that liability." The central banks should be deprived of this temptation to take the line of least resistance offered by unlimited liability.

The late Gopal Krishna Gokhale expressed his misgivings as regards unlimited liability, when the Co-operative Credit Societies Bill was discussed in the Imperial Legislative Council in 1903. He feared ryots would not understand its implications and if they did would not join the societies.

He said "responsibility in equal shares or the common partnership principle would be enough for a start . . . . it will be a mistake to aim at too much in the start. Insistence on such a principle would keep away from the societies those very classes whose help to co-operation would be indispensable." The views of veteran co-operators in India who have been by experience converted to this view cannot be given here.

There is an impression, which is expressed in one of the dissenting minutes to the report of the Committee in Madras, that in all agricultural countries unlimited liability is the rule in all rural co-operatives. Denmark is cited as the best instance. But in this mecca of Co-operation Raiffeisen credit has played little or no part. It is a land of dairy and pig farmers who are in receipt of income once a fortnight. In Denmark unlimited liability is adopted not only for primary credit societies but also for dairy and other non-credit societies and even for central institutions, and it is often undertaken by the same members in different societies. Such multiple unlimited liability is meaningless; and recent opinion is in favour of doing away with the ideal of joint and several liability. Even in Germany, to the extent co-operation was tolerated by the totalitarian regime, the tendency was reported to be in the direction of unlimited liability, in spite of the reputation that, in the words of Dr. Fay, Germans have had for "resolute attachment to self-help. It was this which in Germany made the unlimited liability of the credit bank a rock of strength and not a dangerous sham." The rural credit structure of Holland, before the war, was the most solvent in Europe and free from State aid and control. It might be looked upon as 'the ideal expression of Raiffeisenism.' And yet the chief of the Raiffeisen Central Bank said in 1938 "Use of this liability impairs the support of the members and the necessary feeling that co-operation is valuable to them." France had a widespread system of rural credit with its apex bank in Paris, a number of regional banks (like our central banks) on which depended the primaries not only for finance but also for detailed guidance and supervision. Many of these adopted limited liability, though those with unlimited

liability could borrow more or take more deposits. Japan adopted unlimited liability first, then tried limited liability and in 1932 directed credit societies to adopt either unlimited or guarantee liability. Only a few societies adopted unlimited liability, while two-thirds adopted guarantee liability (1937).

We need not copy any particular model rigidly. Limited liability is well-understood in the country. But we doubt if the financing bank will lend to village societies at a distance on mere limited liability and low share capital. It may be made more attractive to the creditor by the acceptance of a guarantee by each member that he would pay so many times the value of the share in case of liquidation, which multiple should be related to the maximum credit allowed to each on the basis of his assets and income. Some such system was in vogue in parts of Germany.

A more tangible security can be given by every borrower if he pledges a piece of land of his own as a 'continuing mortgage' on the basis of which he can get cash credit. Mortgage is a concrete and, at any rate in Madras where rights in land are not complicated, a customary security far better than the intangible, ill-understood and easily evaded unlimited liability. It is a pity that the Committee did not consider this method of strengthening limited liability, though mortgage has long been in vogue in the Province and continuing mortgage tried in a prominent society, and found to work well. The difficulty of enquiry into the title and value of land, the lack of liquidity and the fear of collusion by villagers at the time of sale of the land pledged to the society if liquidated are all objections which could be raised against the existing system.

There are critics that say that this system would debar landless labourers and tenants from getting credit—as though they have not been ignored so far in spite of the pompous claim of the "capitalisation of honesty and character" in unlimited liability societies. These classes can pledge a house or jewel or even their share of standing crops. A surety with landed property may be accepted. Loans may still be advanced on the basis of character and capacity if the panchayat will make good any loss. It is

not so much the lack of capacity or will to repay that is the cause of default as the want of persons to go round at the right time to collect dues. Where such an agency has been tried, there has been no difficulty in recovering dues from the landless classes. The greatest gain, however, will be by the entry of solvent ryots of moderate means whose demand for loans will not be so great as that for agricultural requirements.

3. *Functions*: *"Multi-purpose."*

The Committee recommends that the rural societies should in addition to providing credit also supply agricultural and domestic requirements of members, arrange for the sale of produce, disseminate knowledge of improvements in agriculture and handicrafts. All these aims are already found in the by-laws of rural credit societies; only very few cared to render these services. The Committee not only desires these lines to be taken up more seriously, but suggests additions: supply of electric power, collective farming and anything that will add to the income of the agriculturists. It says: societies should have a simple constitution, simple accounting and avoid trade involving risks. For instance, supplies may be undertaken on indent system, sale may be done on a commission basis and produce merely passed to a marketing society without the need for storage.

This is all, more or less, in Raiffeisen style. He wanted the village bank to be the centre of village life and particularly of the economic forces of the village. He desired the village bank should take up the joint supply of agricultural and domestic requirements, the sale of produce and even processing (*e.g.*, creameries). Experience, however, showed that while the supply of agricultural requirements could be easily carried on as a side activity, sale and production involving more business and technical knowledge were better done independently.

The Reserve Bank has been advising for some years now that rural credit societies should take up supply and sale and other functions. "For whatever apparent purpose a society is started it must serve as a point for contact and

gradually other purposes must be developed so that ultimately the whole man is dealt with." Views seem to have been changing as to whether all non-credit work should be done on an agency or outright basis. At the Registrar's Conference, referred to above, the subject was discussed. The resolution passed, on the motion of the Reserve Bank Officer himself, shows the inconclusiveness of the views held on the subject by the Registrars and non-official leaders: "Provinces should experiment with multi-purpose societies to ascertain more clearly the conditions under which they are likely to thrive and the form which they should take with special reference to their area of operations, liability and purposes."

Co-operators in Madras, judging by their written evidences to the Committee, are sceptical of the success of a multi-purpose society confined to a single village, due to the lack of human material to manage diversity of lines while the demand for such services would be inadequate to make their catering economic. Even the champions of "one village, one society" and unlimited liability want for non-credit work a big society or a trading union (of societies and individuals) operating over a wider area with limited liability and paid staff.

The Committee believes that multi-purpose societies can succeed only in a larger area than a village, and so unlimited liability is out of the question. We feel that even the enlarged credit society cannot successfully take up more than one or two lines in addition. Dual rather than multi-purpose has succeeded in other countries. We cannot go into ecstasies as regards possibilities in India on the basis of exceptionally successful societies like Templecrone in Ireland. There is no use attempting to make the credit society a sort of universal provider.

4. *Honorary Service.*

Raiffeisen insisted that the services rendered by the Committee of Management should be gratuitous. The accountant alone—generally the village schoolmaster—could be paid something for his scriptory work, but he could not be a member of the committee of management. The

Maclagan Committee was of the same view. The Townsend Committee in Madras permitted the Secretary a small fixed remuneration not based on profits or loans.

Evidence on this subject revealed a sad breakdown of the purely honorary system in Madras. Accounts had often to be written up by supervisors—often long after this should have been done Panchayatdars in some societies write up in a more unsatisfactory manner and they get honoraria, based not on profits earned but on the loans outstanding in the year ended. This has led to the keeping down of repayment of loans, so as to ensure large honoraria. If payments were made on working capital or on loans disbursed, this might lead to granting of loans more leniently. Payments on deposits received or recoveries made might mean little or no remuneration at all. Purely gratuitous service in respect of scriptory work is too much to expect.

Meanwhile the financing banks are utterly annoyed at this state of affairs in societies which they have financed. They distrust honorary service in any form.

The Committee wants the enlarged multi-purpose society to engage a full-time trained staff and not depend on honorary office-bearers for accounting and correspondence and technical work. If transactions increase as a result of enlarged area, limitation of liability and non-credit business, it will be both necessary and possible to engage a good paid staff. This will still leave ample scope for panchayatdars to exercise general supervision and do propaganda.

The Madras Committee on Co-operation should be congratulated for adopting, on the whole, a more realistic attitude and a less severe standard than that prescribed for more vigorous and educated farmers, who were never so abjectly poor as our peasants are and who were blessed with more fortunate leaders.

RURAL CO-OPERATION IN MADRAS

BY

S. S. SANTHANAM, M.A.

The co-operative movement was ushered into existence, nearly three and a half decades ago with the prime object of providing credit for agriculturists. In the words of the Government of India,[1] "One of the most difficult problems with which the small agriculturist is everywhere confronted is to obtain the money which is necessary for his operations at a reasonable rate of interest. This is a state of affairs by no means peculiar to India. The petty agriculturist of Europe is for the most part financed by borrowed capital and there, too, the money-lender takes advantage of the exigencies of the cultivator to demand exorbitant terms. In India, however, the problem is aggravated by the fact that Indian rates of interest are to some extent survivals from times when security which the agriculturist had to offer was of far smaller value than at present and also by the fact that the money-lender had not been slow to take advantage of the unwillingness of the civil courts to go behind the terms of a written bond." "The desirability of providing the peasant with some means of obtaining the capital required for agricultural operations otherwise than at usurious rates of interest has at various times engaged the attention of the Government of India and of all who are interested in promoting the welfare of the agricultural classes."

The need for credit facilities for the ryot in an organised form, other than at the hands of the money-lender at the usurious rates of interest, was the factor that pressed for attention and action of the Government of India and led to the passing of co-operative credit society's Act at 1904. It is under that act that the co-operative movement in Madras and other provinces came to be organised in that year. But

[1] Resolution of the Govt. af India dated 29th April, 1904.

even before that year the attention of the Madras Government came to be focussed on this issue of provision of rural credit. Even as early as 1892, Mr. (Later Sir) F. Nicholson was directed to investigate the question whose enquiry disclosed "that the load of debt borne by the Madras ryot is heavy, that its interest is high, and that it has been incurred with but a minimum result in profit," and whose conclusions were. "On the whole, indebtedness is general and its burden heavy; on individuals and classes it is particularly so; the remedies lie in systematic and stimulative forms of banking which shall economically educate while assisting the ryot and in the spread of general education of the ordinary art with, as frequently advocated, special attention to the facts of rural economy." Mr. Nicholson came to the conclusion, that what was chiefly required for the credit work of the Madras districts was 'small local, locally worked institutions on the lines of the European village institutions,' "because they would satisfy the postulates of proximity, security, facility, excite local confidence, and consequently draw in local capital, work cheaply, almost gratuitously and thus provide cheap credit, influence borrowers towards the true use of credit and watch the utilisation of matters of thrift, association and self-help and develop high forms both of individual capacity, public life and of national character." The Madras Government, however, reviewing that Report in 1899 expressed the opinion that the question of rural credit in the Presidency was not one of urgency and thought that it would be enough if a few rural banks were started on strictly Raiffeisen line. The Report considered by Government thereon, referred to a Committee under the presidentship of the Hon'ble Sir Edward Law in 1901, whose proposal for definite action was again referred to local governments for criticisms. Meantime Indian Famine Commission of 1901 (of which Mr. Nicholson was a member) recommended the introduction of mutual credit associations. It became clear that no real advance was possible without legislation and the Act of 1904 thus came to be passed. The Act was designed to assist and foster agricultural credit. The keynote to the movement was thus rural and the *modus operandi*, provision of credit. The

conditions of the Province of Madras—a mainly agricultural provinec then and even now, largely agricultural—envisaged the need for such a movement, holding immense possibilities for the movement of rural co-operation. This in brief is the origin of rural co-operation in Madras.

Now to the working of the movement in Madras. The first co-operative village credit society—the Tirur society—was registered on the 30th August 1904 in the Chinglepet district. The number of societies and members thereof were 63 and 6,439 in 1907, 972 and 66,156 in 1912, and 1,600 and 1,18,726 in 1915 of which latter 1446 were agricultural societies. A quarter of a century later in 1940 the number of societies rose to 11,191. In 1915 the total amount of loans outstanding against members of all primary agricultural societies was 57·73 lakhs while in 1939 it was 352·52 lakhs.

While there has been development of rural institutions, both in form and volume, there were of course ups and downs and four distinct phases, in the development of the movement in the Province, could be discerned. The period between 1904 and 1917-18 could be taken as the first period which was one of slow growth. From 1918-19 to 1929-30 the movement entered upon its second phase when the economic conditions of the post-war period with boom conditions wrought a favourable change, bringing about a too rapid expansion in the movement; the number of societies of all types increased from 3676 to 15238 and the membership from 244297 to 974999. It was during this period that the Townsend Committee on co-operation reported on the working of the movement in the Province which was followed by the passing of the Madras Co-operative Society's Act of 1932 to remedy the defects noticed in Act 21 of 1912 (India). In 1934 a separate act regarding land mortgage banks was passed. The third phase from 1929-30 to 1936-37 was the period of a severe economic depression, occasioning a crash in agricultural prices and affecting thereby severely the rural co-operation. In the statistics furnished in the following pages the changes that overcame the movement during the second and third phase could not escape attention. The fourth phase may be said to commence from 1937-38

when the movement is said to have turned the corner and on the road to recovery.

The following statement will show the development of the rural co-operative organisations in its fourth phase:

Table: Statement of rural co-operative institutions.

	Class of organisation	1937-38	1938-39	1939-40
1.	Agricultural credit societies (other than Land Mortgage banks)	10520	10926	11192
2.	Land mortgage banks ..	101	112	119
3.	Non-agricultural credit societies	1070	1131	1168
4.	Sales societies and market societies	122	138	149
5.	Agricultural stores and Trading unions	7	9	6
6.	Manure supply societies ...	1	2	2
7.	Kudimaramathu and irrigation societies	12	13	14
8.	Agricultural demonstration and agricultural improvement societies	35	39	42
9.	Land reclamation societies ...	10	10	9
10.	Sugarcane growers' societies...	15	15	14
11.	Fruit-growers' societies ...	9	8	15
12.	Cotton-growers' Societies ...	1	1	1
13.	Plantain-growers' societies ...	...	...	1
14.	Betelleaf growers' societies ...	...	...	1
15.	Casurina-growers' societies ...	1	1	1
16.	Cattle-breeding societies ...	3	5	7
17.	Consolidation of holdings societies	5	16	22
18.	Colonisation societies ...	2	3	4
19.	Cottage industries societies: exclusive for woman ...	9	22	25
20.	Other cottage industries societies	28	46	66
21.	Agricultural and industrial societies	2	2	2
22.	Better-living societies ...	50	54	51
23.	Rural reconstruction societies	...	...	1

It will be noted that the primary agricultural credit societies constitute the bulk of co-operative organisations, in the Province. And until the time that the Land Mortgage banks were organised in 1925, they were the sole sources of credit. In the following pages the working of these as purveyors of credit has been dealt with at some length which can show the essential trend of rural co-operation in Madras.

A glance at the following table will show the growth of the primary agricultural credit (unlimited liability) societies in the Province during the past two decades:

Table: Primary Agricultural Credit Societies.
(Unlimited liability)

Year	No. of Societies	No. of Members	Average membership per society
1920-21	5,199	274,808	52
1921-22	6,190	325,536	53
1922-23	7,076	375,500	53
1923-24	8,077	437,292	54
1924-25	9,131	486,105	53
1925-26	9,787	522,061	53
1926-27	10,954	581,366	53
1927-28	11,911	627,774	53
1928-29	12,323	652,285	53
1929-30	12,478	670,037	54
1930-31	12,246	670,037	54
1931-32*	...	...	...
1932-33*	...	...	...
1933-34*	...	...	...
1934-35	11,112	531,225	48
1935-36	10,943	524,986	48
1936-37	10,456	509,307	51
1937-38	10,451	522,615	51
1938-39	10,743	565,301	52

*Figures not available.

It will be noticed that there was a considerable expansion of these societies during the period from 1920-21 to 1929-30, when the peak point of 12478 was reached. Just then the economic slump set in affecting the fortunes of the movement as with other economic activities. And in the subsequent decade there was a downward trend until 1935-36 and it was only in the next year that it slowly began to move up. It is not the economic depression alone that affected the growth of the societies. Pursuant to the suggestions of the Townsend Committee on Co-operation, 1927-28, for immediate attention to dormant societies by either reviving or liquidating them without delay, a number of societies were weeded out and this process also arrested the expansion of the movement, and tended to steady it.

In regard to the character of membership, the following tables furnish interesting data:

Table: Membership of societies.

Year.	Agriculturists.	Non-Agriculturists.	Dependents or mixed.	Total.
1923-24	347,895	59,747	46,391	454,033
1924-25	407,794	210,692	72,254	690,740
1925-26	442,054	227,440	79,289	748,783
1926-27	497,910	242,054	90,528	830,522
1927-28	539,699	259,151	99,336	898,186
1928-29	562,298	277,545	100,941	940,784
1929-30	572,998	290,404	111,797	974,999

It will be interesting to note the further classification of the first group in the above table—the agriculturists—in the manner disclosed in the following table:

Table: Agricultural members.

Year	Cultivating Landholders.	Non-cultivating landholders.	Tenants.	Field labourers.
1923-24	230,798	36,168	50,708	300,21
1924-25	266,260	46,272	59,688	355,74
1925-26	294,312	46,792	61,473	394,77
1926-27	338,611	52,650	63,378	43,301
1927-28	373,807	58,889	62,217	417,86
1928-29	392,365	61,094	63,164	456,75
1929-30	400,842	62,820	63,824	453,12

Let us now take the working capital and amount of transaction—their loan operations during the last twenty years.

Table: Working Capital and Loans Outstanding against Members.

(Agricultural Credit Societies—unlimited liability)

Year.	Working Capital. (in lakhs Rs.)	Loans outstanding against members (in lakhs Rs.)
1920-21	183·86	159·65
1921-22	221·86	193·72
1922-23	264·02	230·68
1923-24	313·80	274·64
1924-25	356·54	311·16
1925-26	396·34	345·70
1926-27	486·32	428·79
1927-28	568·09	503·04
1928-29	607·40	538·23
1929-30	651·14	573·51
1930-31	639·89	573·51
1931-32*	...	...
1932-33*	...	...
1933-34*	...	...

Figures not available.

Year.	Working Capital (in lakhs. Rs.).	Loans outstanding against members (in lakhs. Rs.).
1934-35	456·55	351·15
1935-36	452·73	344·54
1936-37	428·96	316·88
1937-38	435·78	321·02
1938-39	471·11	351·99

In regard to the loans issued by the agricultural credit societies, the following table will show the further classification thereof, in accordance with their value and period:

Table: Value of loans issued by agricultural credit societies.

Year.	Loans not exceeding Rs. 50.	Loans exceeding Rs. 50 but not Rs. 100	Loans exceeding Rs. 100 but not Rs. 250	Loans exceeding Rs. 250.	Total Loans
1922-23	2,788,116	2,748,281	3,323,291	3,838,198	12,697,886
1923-24	3,201,619	3,166,384	3,800,344	4,736,407	14,904,754
1924-25	3,128,747	3,192,053	3,993,509	5,518,677	15,832,986
1925-26	3,087,052	3,313,875	4,388,592	5,968,694	16,758,213
1926-27	3,367,792	3,996,037	5,573,670	10,720,323	23,657,822
1927-28	3,409,630	4,053,899	5,891,673	12,243,588	25,598,780
1928-29	3,255,214	4,021,418	5,786 803	12,055,178	25,518,613
1929-30	3,500,854	4,143,063	6,059,520	12,376,227	26,079,664
1930-31	2,458,934	2,665,871	3,834,128	7,391,222	16,350,155
1931-32	1,269,602	1,516,119	2,193,869	4,763,140	9,742,730
1932-33	12,10,012	13,52,102	19,68,857	47,06,108	92,37,079
1933-34	11,50,646	12,39,596	18,05,002	50,20,520	92,15,764
1934-35	12,97,704	14,61,106	27,87,328	69,27,148	1,24,73,286
1935-36	...	...	...	...	..
1936-37	17,39,629	17,63,546	28,30,439	99,56,157	1,62,89,771
1937-38	20,81,443	22,20,949	34,36,483	1,34,55,596	2,11,94,471
1938-39	...	...	...	...	...

Table: Period of loans issued by agricultural credit societies.

Year.	Not exceeding one year.	Exceeding 1 year but not 2 years.	Exceeding 2 years but not 5 years.	Exceeding 5 years.	Total loans.
1922-23	6,313,950	1,909,593	4,474,343*	...	12,697,886
1923-24	7,399,183	2,096,846	5,408,725*	...	14,904,754
1924-25	8,028,555	2,137,518	5,666,913*	...	15,832,986
1925-26	10,698,591	4,728,727	14,806,372	4,882,711	35,116,401
1926-27	11,942,076	5,277,177	18,803,877	7,653,780	43,676,910
1927-28	13,255,649	5,579,428	20,120,095	12,393,645	51,348,817
1928-29	15,639,556	4,943,595	21,252,265	13,486,357	55,321,773
1929-30	19,452,611	4,701,744	22,250,590	12,751,893	59,156,838
1930-31	18,674,257	4,098,717	22,375,187	12,420 191	57,568,352
1931-32	15,109,316	3,406,756	20,081,823	11,449,695	50,047,590
1932-33	13,033,683	2,766,965	17,980,753	11,154,877	44,936,258
1933-34	11,366,601	2,582,548	16,678,547	11,399,804	42,027,500
1934-35	11,078,978	2,461,370	16,375,857	12,560,191	42,476,396
1935-36	...	...	...	...	...
1936-37	11,020,409	1,871,322	1,59,71979	1,71,72821	4,60,36,531
1937-38	1,50,42888	1,810,713	1,55,54577	1,93,47292	5,17,55470

Let us now take the purpose of loans, which were issued for productive as well as non-productive purposes; the latter includes loans for repayment of prior debts. The following table will give the classification in regard to the purpose of the loans:

* Loans exceeding two years.

Table: Loans for productive, non-productive and for payment of prior debts.

Year	Productive purpose		Non-Productive purpose		Redemption of prior debts.		Total loans	
	Number.	Amount in lakh Rs.	Number.	Amount in lakh Rs.	Number.	Amount in lakh Rs.	Number.	Amount in lakh Rs.
1920-21	91046	63·22	2817	2·06	19198	23·16	113361	88·44
1921-22	98028	77·97	4672	3·23	26769	36·79	129469	119·99
1922-23	109961	85·66	4988	3·56	27504	37·76	142453	126·98
1923-24	130373	100·83	5123	3·64	30989	44·56	166485	149·47
1924-25	136062	109·11	3317	2·62	31247	46·60	170626	158·33
1925-26	131765	114·89	3955	3·60	30631	49·09	166351	167·58
1926-27	148600	143·98	3388	3·25	40077	89·34	198065	236·57
1927-28	148363	151·50 (59·20%)	4180	4·43 (1·73%)	47623	100·04 (39·07%)	200166	255·98
1928-29	156110	164·69 (65·56%)	4356	4·47 (1·78%)	37065	82·02 (32·68%)	198031	251·18
1929-30	174229	182·42 (69·90%)	5279	6·61 (2·6%)	26052	71·77 (27·5%)	172944	260·80
1930-31	118870	112·97 (69·10%)	2367	2·31 (1·41%)	22683	48·22 (29·49)	143920	163·50
1931-32	63979	64·88 (66·59%)	1477	1·45 (1·48%)	13473	31·10 (31·93%)	78929	97·43
1932-33	59766	59·35 (64·25%)	1484	1·34 (1·24%)	12310	31·68 (31·30%)	73560	92·37
1933-34	52927	51·02 (55·37%)	1725	1·75 (1·89%)	14158	39·39 (42·74%)	68810	92·16
1934-35	61672	72·75 (58·32%)	1597	1·86 (1·49%)	15648	50·12 (40·19%)	78917	124·73
1935-36	73878	80·90 (54·58%)	1873	1·94 (1·31%)	18507	65·38 (44·11%)	94258	148·22
1936-37	82404	91·95 (56·44%)	1804	1·82 (1·12%)	17535	69·13 (69·13%)	101743	162·90
1937-38	112138	148·29 (69·97%)	2404	2·80 (2·32%)	14504	60·85 (28·71%)	129046	211·94
1938-39		148·29		2·80		26·26		177·35
1939-40		193·66		7·48		47·22		248·36
1940-41		216·85		3·36		39·83		260·04

From the above statement it can be seen that 50 to 70% of the loans issued was for productive purposes, 30 to 40% and only 3 to 5% towards non-productive purposes. The various items under the productive and other loans are analysed in the following pages:

Table: Synopsis of productive loans issued by agricultural societies.

Year	Purpose					
	For Cultivation expense.	Purchase of cattle	Payment of Kist	Improvement of land	Purchase of raw materials	Trade
1922-23	2274321	1083819	799484	490626	99346	1614610
1923-24	2613708	1256601	975564	664620	107960	1859908
1924-25	2919380	1190655	1212172	759594	98448	1732273
1925-26	3555979	1185425	1284984	862397	108668	1603320
1926-27	3950419	1618516	1316946	1374346	118551	2028515
1927-28	4523648	1658200	1482355	1204632	133184	2154614
1928-29	5182502	1549620	1687499	1227586	122182	2247071
1929-30	6202919	1632879	1905528	1175946	122258	2634887
1930-31	3881226	1182769	1301265	744648	81806	1351392
1931-32	2172387	678394	838689	372565	39195	855355
1932-33*						
1933-34*						
1934-35*						
1935-36*						
1936-37	2882702	807958	1225279	636032	133921	1619173
1937-38	5435081	992462	2007551	1056730	145339	2009361
1938-39	7097937	1496674	2673363	948743	169459	3093973
1939-40	7526081	1191924	3421774	1934498	68641	3750785

* Not available.

Table: Synopsis of productive loans issued by agricultural societies.

(Continued)

Year.	For education.	For house-building.	For manufacture of country carts.	For purchase of land.	For food etc.	Total productive loans.
1922-23	38006	493485	86528	420776	1184755	8565756
1923-24	36220	654726	50376	547380	1316135	10083198
1924-25	26471	663219	46743	630794	1631631	10911380
1925-26	43099	681524	47028	657855	1458410	11488689
1926-27	70888	978347	91565	1066698	1783928	14398719
1927-28	52120	925787	94476	1224714	1696669	15150399
1928-29	69111	1041034	74137	1201104	2068664	16469519
1929-30	52311	983227	69498	1153570	2308812	18241835
1930-31	33746	668976	43267	511976	1496081	11297352
1931-32	31130	375656	24303	246280	855597	6487551
1932-33						
1933-34						
1934-35						
1935-36						
1936-37	14011	434875	30936	362222	1047444	9194553
1937-38	15584	499180	36209	419265	2012045	14828807
1938-39	46562	681585	70837	517605	2569195	19365934
1939-40	54492	532915	35914	432096	2737603	21685660

Table: Synopsis of non-productive loans issued by agricultural societies.

Year.	Purpose. For marriages.	Other ceremonies.	Litigation & other non-productive purposes.	Total non-productive purposes.
1922-23	213937	39149	102717	355803
1923-24	229556	23653	111453	364662
1924-25	197427	21062	43226	261715
1925-26	268730	27365	64547	360642
1926-27	227960	35433	61778	325171
1927-28	291080	54151	98715	443946
1928-29	328381	43815	75044	477240
1929 30	500784	54895	15613	661292
1930-31	137494	28703	64547	230744
1931-32	104902	15553	24052	144507
1932-33*				
1933-34*				
1934-35*				
1935-36*				
1936-37	103315	23346	55394	182135
1937-38	121465	21522	137278	280265
1938-39	176073	20924	551284	748281
1939-40	132472	16833	186653	335958

Not available.

In the foregoing pages the working of the societies—the number of societies and members, their working capital and amounts issued as loans—has been described. The problem has been dealt with at some length with an analysis of the loans issued in accordance with the value and period and classified as productive and non-productive and towards redemption of prior debts. A further analysis of the productive and non-producive loans has also been made. The

only feature in respect of the working of the societies that remains to be touched upon is in regard to the overdues of loans. The following statement shows the amount of loans outstanding at the beginning of the year, the amount collected, including advance collection and the percentage of the latter to the former.

Table: Statement of Loans outstanding at the beginning of the year and amount collected and the percentage.

Year.	Amount of loan outstanding at beginning of year.	Amount collected including advance collection	Percentage of columns 3 to 2
	Rs.	Rs.	
1910-11	1530976	811945	53·03
1911-12	2340440	1114831	47·63
1912-13	3526627	1540792	43·69
1913-14	4325256	1879988	43·23
1914-15	5080048	1958714	38·49
Total	16812377	7306270	43·45
1915-16	5679001	2560973	45·09
1916-17	6486043	3202949	49·55
1917-18	7828096	4041621	51·68
1918-19	8797652	4506807	51·22
1919-20	10972488	5922032	53·97
Total	39763280	20234372	50·88
1920-21	13934317	6590590	47·29
1921-22	16113220	8277901	51·37
1922-23	19556531	8853316	45·27
1923-24	23309769	10462630	44·88
1924-25	27725846	11853558	42·75
Total	100639653	46037995	45·74

Statement showing the percentage of overdues (principal and interest) from members to agricultural credit societies, from 1925-26 to 1938-39

Year.	Principal. Demand. Rs. Lakhs	Principal. Balance. Rs. Lakhs.	Principal. Percentage of balance to demand.	Interest. Demand. Rs Lakhs.	Interest. Balance. Rs. Lakhs.	Interest. Percentage of balance to demand.
1925-26	233·57	107·79	46·15	56·27	25·46	45·25
1926-27	265·63	121·29	45·66	64·82	29·94	46·20
1927-28	316·74	135·57	42·81	78·02	34·78	44·58
1928-29	361·12	147·73	40·90	91·07	39·32	43·17
1929-30	379·72	176·24	47·00	96·46	45·82	47·50
1930-31	427·30	254·51	59·56	108·70	61·96	57·00
1931-32	436·88	275·73	63·11	121·97	69·60	57·06
1932-33	391·46	264·41	67·55	122·10	77·09	63·14
1933-34	356·24	251·89	70·71	123·30	83·73	67·51
1934-35*	324·26	225·84	69·65	120·28	83·72	69·60
1935-36	300·58	205·30	68·30	101·80	68·41	67·20
1936-37	277·70	176·15	63·43	83·36	55·11	66·11
1937-38	257·80	163·42	63·39	71·69	49·09	68·48
1938-39	265·73	162·25	61·06	66·34	45·51	68·59

* The figures for years from 1934-35 to 1938-39 exclude those relating to land mortgage banks.

The question of overdues among other things would reveal certain factors of rural economy which would come under the purview of rural co-operation. The seasonal failures of crops, the large amount needed by way of long-term loans for improvement of land, capital expenditure thereon, etc., and a pretty big slice needed for redumption of prior debts, all tended towards overdues. Further it was felt that the ordinary rural credit societies were not in a

position to meet the requirements of the members in regard to the long-term loans for improvement of lands, clearing of prior debts and similar purposes. The movement of ruarl co-operation designed to assist agricultural debt-relief had to provide for amounts for liquidation of scaled down debts and it is land-mortgage bank that can be of help to the ryots in meeting this requirement. So as early as in 1919 Mr. F. R. Hemingway, the then Registrar, Co-operative Society, formulated a scheme based on the experiment carried on in the C. P. for raising money for use in Co-operative banks on a system of debentures backed up by mortgages taken from members of primary co-operative societies on unencumbered immovable property. It was felt desirable to devise a system to secure long-term deposits to enable the primary societies to get their loans repayable in longer periods. As at this time, the movement entered upon its second phase, witnessing a more rapid expansion thereof, it necessitated a considerable increase in the demand for money by primary societies and it became necessary to devise a method by which money could be raised to supplement that available by way of deposits. And it was felt that there was good security worth lakhs of rupees in the lands of members of primary societies which could be utilised for raising further money and it was thought that the system of raising money on the strength of mortgages of unencumbered land would be more attractive to the public than ordinary deposits, secured only on share capital and collateral securities. Thus in 1925 land mortgage bank was brought into existence. And in 1929 the Madras co-operative central mortgage bank was started with the object of financing the land mortgage banks. The banks issued loans to members generally up to Rs. 5000 for redemption of mortgages, for redumption of prior debts not secured by mortgages and for improvement of land or methods of cultivation. The byelaws of a primary bank provided also for the grant of loans for purchase of land in special cases to enable the ryot to round off his holding and work it more economically. From the date of the starting of the Madras Central Land Mortgage Bank up to 30th June, 1939 it issued loans to an aggregate amount of Rs. 235 lakhs.

Table: Loans disbursed by the Madras Central Land Mortgage Bank during the period 1929-30 *to* 1937-38, *classified according to value.*

Amount.			No. of loans,	Amount (in lakhs).
Amount below Rs. 500			766	Rs. 2·63
Rs. 500 and belew Rs. 1000			2048	„ 13·51
Rs. 1000	„	2000	2807	„ 35·45
Rs. 2000	„	3000	1369	„ 30·21
Rs. 3000	„	4000	754	„ 24·06
Rs. 4000	„	5000	425	„ 17·84
Rs. 5000	„	6000	651	„ 32·58
Rs 6000	„	7000	30	„ 1·85
Rs. 7000	„	8000	20	„ 1·44
Rs 8000	„	9000	11	„ 0·90
Rs. 9000	„	10000	4	„ 0·36

Let us now consider the working of the movement in relation to the object it had in view. As pointed out before the movement was intended primarily as an organisation of credit intended to supplant the money-lender and his credit at usurious rates. In Madras Sir Frederic Nickolson in his Report assessed the rural debt of the Province at about 45 crores in 1895. The Provincial Banking Enquiry Committee in 1930 estimated it at about Rs. 150 crores. In 1934 Doctor P. J. Thomas estimated that it had increased to Rs. 200 crores. Mr. W. R. Satyanathan who next investigated the problem estimated the agricultural debt to be about Rs. 210 crores. The Royal Commission on agriculture in India under the chairmanship of Lord Linlithgow, the present Viceroy, observed that the worst policy towards debt is to ignore it and do nothing. Various moneylending legislations—the Madras Debtors' Protection Act of 1934, the Madras Debt Conciliation Act of 1932 and the Madras Agricultural Debt-Relief Act of 1938—were passed with a view to secure agricultural debt-relief. It is in tackling this aspect of debt that the fruits of rural co-operation can be expected. For, so long the millstone of heavy debt hangs

round the neck of the ryot, the controlled credit of co-operative movement could be of little avail. But it stands to the credit of rural co-operation in Madras that it had tried to make headway against such circumstances. The percentage of population touched by the movement is about 8·64. The number of villages including some towns affected by the movement is 34087 out of a total number of 53024 villages and towns in the Presidency.

It has been clearly recognised and fullv conceded by all that the best way of providing rural credit and indeed revitalising our rural economy is through co-operative movement. The Royal Commission had put it well—that in co-operation lies the hope of rural India. The development of the movement had been subject to investigation by two Committees, one in 1927-28, and the second in 1939-40. On the one hand there was the criticism that the movement has been neither sound nor efficient. On the other there was the favourable view quoted that it has its achievements such as the reduction in the rates of interest throughout the Province, breaking down the monopoly of the money-lending classes in the countryside, attraction of a good deal of money into the movement and making it available to agriculturists and others who are in need of cheap and reasonable, credit, gradual redemption of ryots from prior debts with the advent of land mortgage banks, and promotion of agricultural industry through cheap credit.

The Committee had made many recommendations in the light of their examination of the working of the movement, some of them of far-reaching character and making vital departure from the present trend thereof. The conversion of unlimited into limited liability of agricultural societies is one such. The question of multi-purpose in place of single-purpose society has been advocated by the Reserve Bank authorities, on which there is difference of opinion.

Many of the recommendations of the Madras Committee on co-operation made in the light of the actual working and the peculiar local development and needs of the movement could go a long way to make rural co-operation sound and successful in the Province. The Committee

rightly point out that no organisation is so well suited for the provision of financial assistance for the redemption of prior debts or for land improvement as land mortgage banks. The recommendations of the Committee in this respect are—a five-year plan of expansion of land mortgage banks so as to provide for at least 200 banks covering the whole province; special arrangement for enabling them to help ryots with long-term mortgage credit in dry areas by offering the Central Land Mortgage Bank temporary accommodation either from general revenues of the province or from famine relief fund; provision for economic improvement of the ryots in dry areas through adequate irrigation facilities, the Central Land Mortgage Bank to finance on a more intensive scale permanent productive improvements to lands; loans for land improvement to be charged at a lower rate than loans for other purposes; loans smaller than Rs. 500 to be encouraged; the operation of the land mortgage banks to be linked with the scheme for debt conciliation. Apart from these recommendations on long-term loans, the Committee considered and made the following recommendations in respect of short-term loans, for current capital to carry on the agricultural operations. The Committee point out that the vast number of agricultural credit societies sought to provide cheap credit and render 'inestimable economic service to the ryots in the past'; and to make them effective the Committee recommended remedial action to resuscitate some of the languishing ones, and suggest speeding up of sanction and disbursement of short-term capital to make the societies more effective and prompt suppliers of rural credit. These and other recommendations if given effect to in the working of rural co-operation would ensure the progress of the movement on sound lines.

THE ORGANISATION OF RURAL WELFARE

BY

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Co-operation is only one of several possible forms of village organisation. To assess its worth, we are inevitably led to compare it with the other forms and thus into a discussion of the whole field of rural welfare organisation.

Co-operation in India has not been the success that it has been abroad. There are differences of opinion as to the cause of the poor progress and in the forefront of the controversy is the question of the degree of control that the State should exercise over the movement. In the discussion of both policy and organisation, much avoidable confusion is caused by the failure to make the fundamental distinction between credit and non-credit co-operation. The problem of credit co-operation is complicated by the fact that claims of banking principles compete for recognition with claims of co-operative principles. A co-operative bank is primarily a banking institution and only secondarily a co-operative society.

How far then would a policy of deofficialisation of the credit movement be justified? The business of banking being different from the business of a trading company (inasmuch as the former in the main trades with other peoples' money, the shareholders' contribution being only a small fraction of the total working capital), many foreign countries have in recent years increasingly felt the need for enacting detailed banking legislation and to vest all supervisory control in Banking Commissions and Inspectorates established for the purpose. Even large commercial banks in the avowedly democratic countries like the United States, Sweden and Belgium have to work within the framework of a statutory code. In view of the fact that the Co-operative Movement in this province is predominantly a resource

movement, depending on "other peoples' money" for the bulk of its capital, with the additional complication of having a borrowers' majority on the Directorate, the control of the Department over it should partake of the nature of the control exercised by the said Banking Inspectorates in foreign countries. And furthermore, when one considers that the central financing agencies in this Province are based on the system of unit banking as in the United States, that is, small isolated independent units managed by whatever talent that is locally available and affiliated to an apex Institution only nominally, in contrast with the principle of banking concentration obtaining in England and Germanv where expert control is integrated in a few large corporations operating with a net-work of branches throughout the country, the case for empowering the Department with wide executive authority for direct intervention in the affairs of central banks is made well-nigh irrefutable. The Bombay Co-operative Societies Act of 1925 does not supply a detailed code of co-operative banking but merely provides a legal framework leaving specific provisions (barring a few exceptions) to be enacted in the form of rules and bye-laws as and when necessary in the light of actual experience and as demanded by local conditions. Adequate use, however, has not been made of this rule making power. Thus in comparing Indian with foreign co-operative legislation, Mr. Calvert's comment in the introduction to his "*Principles*" was so prophetic of the present situation that no apology is necessary for quoting it at length: "The rigid provisions of these various laws at first may seem to contrast strangely with the simplicity and elasticity of the India Act. They must be presumed to be based on knowledge of people with whom the legislatures were dealing and their absence from the latter Act must not be construed as reflecting the opinion that they are not necessary here. The Government of India has thrown upon Local Governments and Registrars the responsibility for insisting on the necessary rigidity adapted to suit local conditions. It will not be seriously argued that a strictness which seventy or eighty years of experience has shown to be necessary in Europe can be lightly dispensed with in India, and it is a fundamental error to assume that the responsibility and

elasticity which characterise the Indian Act give local Governments and Registrars a free hand in the determination or in the application of the principles of co-operation. It is very doubtful if the existing excessive simplicity should be retained at any rate in so far as co-operative principles are concerned." "There are those who would protest against too much strictness and too much rigidity. (There are even those who claim the right to make mistakes—with other peoples' money. England and India have had ample experience of the failure of banks professedly designed to attract deposits from the poor. Banks for the poor must be as rigidly careful in observing true principles as banks for the rich). These overlook the strictness and rigidity of the Agriculturists Loan and Land Improvement Acts, of the Indian Companies Act and of the various Banks and Insurance Societies Acts, all dealing in transactions analogous to those of co-operative societies. Nothing could be more detrimental to the progress of co-operation than the idea that it is compatible with sloppiness. The problem to be grappled with is largely that of rural finance and sloppy finance is intolerable." "The intention of the Government of India in adopting the principles of simplicity and elasticity seems not to have been that there should be no rules or even no complete body of rules but that all rules necessary should be framed by Local Governments. The co-operative movement has contained many failures, and each in turn preaches the lesson of strict adherence to good, sound rules." "Other countries supply instances where politicians have sought popularity by securing a relaxation of one accepted rule or another with the inevitable result of abuse and failures. American opinion seems to be strengthening in favour of the view that the surest method of bringing about co-operation is by outlining in full in the law, a method of organisation that embodies the true principles."

Deofficialisation of the credit movement is clearly out of the question if not for good, at any rate so long as the bulk of its resources continue to come from non-member or non-borrowing depositors. The co-operative credit bank is one of the few channels to secure a flow of short-term capital resources from the urban to the rural areas. Small though

this flow is, it is badly needed to relieve the acute scarcity of agricultural capital. The urban depositor has confidence in co-operative banks because he carries the impression that they enjoy the financial backing of the Government. Nothing will therefore scare him away from the movement so certainly as relaxation of Government control. It would be a retrograde step to entrust the audit of central financing agencies and even of smaller People's Banks in the Taluka towns to extra-departmental auditors.

With non-credit co-operation the issues are different. These can conveniently be discussed only with reference to the more general question of the existing rural welfare organisation in India. Rural welfare activities apart from rural finance, can be broadly divided into two categories:—

Economic: better-farming, consolidation of holdings, livestock improvement, marketing, joint purchase, cottage industries.

Social: better-living (including sanitation and public health, thrift propaganda, etc.), education, welfare work for women, arbitration, etc.

These activities are to-day organised in the villages through any one or more of three agencies: (A) The co-operative society, (B) Government, (C) Non-official and missionary bodies.

How far do these alternative agencies succeed in achieving results commensurate with the cost of their effort? To estimate the efficiency of the three methods of rural organisation, they must be judged according to certain criteria, and the criteria of effective rural reconstruction are, according to Mr. Strickland,[1] the following:—

(1) *Permanence*: Is the work dependent on the presence of an individual who may be removed, or of an organisation which may, through a change of policy, cease to take interest in it? In the event of such removal or change, will the work collapse, or will it be continu-

[1] C. F. Strickland, *Progress of Rural Welfare in India*, 1931.

ed by local residents for whose benefit it is intended?

(2) *Co-ordination*: Is each official department or unofficial organisation operating independently along a single line, or are all forces, official and unofficial, being co-ordinated in an attack upon the rural problem on a broad front with the maximum of co-operation?

(3) *Personnel*: Are the men or women who are engaged in the work trained and qualified for their task, whether technical or social, or are they amateurs who learn, perhaps painfully, at the expense of those with whom they deal?

To this may be added: Are the men or women who are engaged in the work sufficiently disinterested?

(4) *Cost*: Are the results proportionate (in importance and in permanence) to the money spent? Is the scheme one which ought to become self-supporting, and does it appear likely to do so?

(A) Put to these tests, non-credit co-operation makes a very poor showing. The movement has never taken root firmly in the Indian soil. From the outset it has been fostered and controlled by the bureaucracy. In this it has run counter to the fundamental principle upon which the movement has been based in the West—*viz.*, voluntary self-organisation of the people rather than paternalism of the State. Bureaucratic control is admittedly bad, but will de-officialisation which apparently is the only alternative improve matters? To answer this question, we are led to inquire into the origin, the structure and the source of srength of the co-operative form of social organisation as it has developed in other countries. "The co-operative movement was democratic in origin, and the claim to be democratic is still its most distinctive feature."[2] Democracy is

[2] Carr-Saunders, etc., *Consumer's Co-operation in Great Britain.*

based on the belief that "no one exists just to be made a tool and that social institutions and organisations are of value in so far as they help each to live his own life. This belief calls in question the way in which power is used in society —whether it is political or economic power. Modern conditions both of government and production make it inevitable that power should be concentrated into relatively few hands; they require that organs of control should be capable of definite and efficient action. This power may be used for the ends of those wielding it or for sectional advantage; democratic principles demand that it should be used for the good of all. It seems to be a fact that the possession of unquestioned power by any social group in time destroys its sensitivity to the needs of the larger body. Democratic organisation has been concerned with devices which render a governing group continually sensitive to the will of a larger group. The vote is one such device, but only one. The foundations of modern democracy lie in the right of free discussion and criticism, and in the right of free association, upon which freedom of criticism and discussion depends. Without these, democratic forms, such as the vote and the elected governing body, are meaningless and unreal. In short, true democracy depends not merely on forms of organisation, but also on the sensitivity of the controlling group to the constantly expressed will of the whole. The sensitivity of the management to the desires and interests of the general body of members is the result of what may be called economic and institutional constraints . . . Institutional constraint is that which is exerted by the group which is in ultimate control of the management, the group, that is to say, which can draw up the rules under which the undertaking is organised and which possesses the power to remove the management . . . The question to be asked in assessing the reality of co-operative democracy is, how far the constraint which the members can exert on the administration of a society is effective in preserving the sensitivity of the management to their desires."[2] In most advanced countries, the standard of enlightenment is sufficiently high to

[2] Carr-Saunders, etc., *Consumer's Co-operation in Great Britain.*

ensure the sensitivity of the management to the will of the general body. In educationally backward and illiterate India, the institutional constraint generally does not obtain and there is therefore under existing conditions very limited scope for democratic co-operative activity. Expenditure of time, energy and resources on the non-credit movement does not usually yield proportionate results and the lifeless, state-aided structure often serves as a convenient grazing ground for the unscrupulous. De-officialisation under the circumstances would in effect mean that government should withdraw from the movement and leave it to the tender mercies of an interested minority. One is perhaps justified in concluding that non-credit co-operation without some preliminary education of the peasantry is not a practical ideal and so till the ground has been prepared for it the co-operative principle should not be thrust in the foreground as a possible instrument of rural planning.

(B) It is perhaps indicative of a tacit acceptance of this conclusion on the part of the Government that it has in recent years concerned itself more and more with rural uplift on its own initiative. A notable example of this type of welfare organisation was the Gurgaon experiment of Mr. F. L. Brayne. It is true that during the seven years of Mr. Brayne's administration (1920—28), many "changes" and "reforms" were brought about in the villages—in fact, practically all possible changes except the fundamental one, *viz.*, a change in the psychology of the people. The reforms were imposed from above with the result that Mr. Brayne's work did not long survive his departure from the district. It is possible for a capable administrator to initiate an official drive and achieve spectacular results in a relatively short time. But the expenditure of large sums of the tax-payers' money on such experiments would not be justified if the results are not—as they never can be—of a permanent nature. Even the late popular ministries did not perhaps altogether avoid this error. It is not of course suggested that the state should not take the initiative in the matter, but that side by side with official measures of rural progress, "the people themselves," as Mr. Brayne admits, "should be organised to administer their local areas and make them fit to live in. The process

will be slow and there will be nothing spectacular about it, but any progress achieved and any civic sense developed by this method will at least be permanent."[3]

There is also another reason why Governmental activity in this behalf tends to end in frustration. Most official rural development organisations are characterised by the employment of agents for carrying uplift propaganda to the villages, *e.g.*, "village guides" under the Gurgaon scheme and Assistant Rural Development Inspectors and Village Assistants (now under training) in the Bombay Province. Some of them are Matriculates, some not. Their salary is no higher than that of the lowest grade of clerks. They are at times given an *ad hoc* training of a few weeks or months in subjects of rural interest before being posted in the villages. The jurisdiction of an A.R.D.I. is a Taluka which means over a hundred villages. It is obvious that the utility of these officers is limited to doing simple propaganda work: seed extension schemes, modern implements, manure conservation, etc. Other activities of a higher order such as co-operative marketing, joint supply, cottage industries, etc., would perhaps stand a better chance of making progress in the villages if the official organisation was based on a different principle, *viz.*, the principle of concentration of effort in small areas under the direction of highly qualified individuals. Villagers are extremely backward and for that very reason they require men of a higher calibre to win them over by persuasion and conviction to better ways and to train them in methods of social organisation such as the runing of a co-operative society on true democratic lines.

(C) Rupee for rupee, the non-official and missionary organisations such as the Servants of India Society and the Y.M.C.A. and other welfare centres are perhaps doing more solid ameliorative social work than either the co-operative societies or the Government. (We are examining the "Missionary Settlement" only as a method of welfare organisation; we are not concerned here with any religious or political controversies). What is the secret of their success? Their personnel is in the first place special-

[3] F. L. Brayne, *Better Villages.*

ly trained for the job. Secondly, their method of concentration on a few villages at a time rather than diffusion of attention and resources makes for permanence of results achieved. Thirdly, the individual in charge of the settlement is usually a person of sufficiently wide education and experience to combine in himself knowledge of the various aspects of rural economy. But of all, the most important reason is that the missionary is not a touring but a resident worker. He lives in the village all the time and shares the life of the villagers. He is, therefore, able to win over their confidence—an indispensable condition for any rural organiser. Rural uplift is essentially a missionary activity and the missionary form of organisation is best suited to it. The only reason why Martandam and Khed-Shivapur cannot be multiplied is that the resources of the organisations which finance them are limited.

The upshot of the above analysis of the rural problem is that co-operation will not receive a fair trial so long as people are illiterate and unorganised; that Government has financial, technical and administrative resources but does not know how to make an effective use of them; and that missionaries, while they know the technique, have not the required resources. Can we devise a form of organisation which combines the merits of the Governmental and the missionary models but is free from the principal limitations of both of them? A scheme to this end to be worked under Government auspices is outlined below. It is sketched with reference to the Bombay Province but, *mutatis mutandis*, can be introduced elsewhere also.

The co-operative Department for the registration and supervision of credit and non-credit societies to be kept as it is. The marketing staff as also the R.D.I.'s and the A.R.D.I.'s to be retained. 75 gazetted posts of "Village Workers" 'to be created on the following terms and conditions:—

Minimum qualification:

(*a*) Degree in economics *and* degree in agriculture;

or

(*b*) Degree in agronomy of a foreign university.

Condition of Service: Residence in the village in the manner of a villager.

Pay and allowances:

For (*a*) Rs. 170—10—400 with efficiency bar after every 5th increment.

„ (*b*) Rs. 250—10—500 with efficiency bar after every 5th increment.

An allowance of Rs. 30 per month for every school-going child not residing with the officer.

Tonga allowance of Rs. 30 per month.

Pay of Rs. 80 per month to the officer's wife if she is duly qualified and offers her services for organising welfare work amongst women.

A radio set primarily for the education and entertainment of the village folk and incidentally for the recreation of the officer and his family.

Each "Village Worker" 'to be given an Assistant well-versed in agriculture and knowing typing and a peon-servant.

The following points throw further light on the proposal:—

(*a*) Each Village Worker will be located in the midst of a group of villages that have a common interest. One might for example be posted for the villages round about Borvihir and Shirud in the West Khandesh district. The common problem of these villages is the marketing of their milk and milk products. The first task of the Village Worker will be to study the economics of the problem and then to guide the villagers as to how they should organise their business either on indi-

vidual or corporate lines. If the villagers themselves show preference for co-operative action, they might function as an unregistered society, but the Village Worker should be in no hurry to secure registration merely to adorn the annual administration report. In fact, non-registration is often to be preferred to registration. The Indian peasant is not used to the discipline of a modern democratic organisation—the obligation to work within the framework of a code of rules and regulations—and by temperament he is impatient of formal procedure.

(*b*) It will also be the duty of the Village Worker to encourage local arbitration of disputes and thus pave the way for the establishment of a panchayat. He will concentrate on a compact block of 10 to 20 villages and manage all the work by sharing it between himself and his Assistant. His success as an officer will depend upon his ability to win over the confidence of the villagers and one possible proof of this will be whether he has succeeded in carrying through a scheme of consolidation of holdings in any of the villages under his charge. He might with advantage work on a demonstration farm and maintain farm accounts in order to judge for himself and to demonstrate to others the results of better-farming methods. He will also keep a premium bull for cattle-breeding purposes.

(*c*) The Village Worker will not be required to maintain an office separate from his residence. Red tape will be cut down to the minimum. Emoluments are kept liberal enough to reconcile educated young men to residence in the villages. Provision has also been made for the education of their children in boarding schools or elsewhere. The Village Worker

will enjoy security of service like any servant of Government but unlike other Government servants he will not draw his increments as a matter of course. Hence the frequent efficiency bars. After every fifth year the Director of Rural Development will judge his work on the basis of actual results achieved and if these are unsatisfactory, increments are liable to be postponed.

(*d*) The Village Worker will not be subject to frequent transfers and he will remain in one group of villages for one, two or more years according to the needs of the situation before he moves on to another. During his stay he will have trained up a sufficient number of villagers so as to ensure continuity of the good work initiated by him.

(*e*) Indian Universities turn out economists and agriculturists but not students who combine a specialised knowledge of both. (B. Ags. with rural economics as their optional subject notwithstanding). It will be some time before a sufficient number of candidates possessing the above qualifications are available. The scheme can only materialise gradually but once introduced it should be a long-term arrangement.

(*f*) The cost of 75 Village Workers and other establishment will during the first year be between 3 and 4 lakhs of rupees. If agricultural income and production go up as a result of their efforts, the cost would be recouped in the long run.

In final justification of this proposal—made, of course, very tentatively—one cannot do better than end with the following apt quotation: "Not many of us, to tell the final truth, have had the missionary spirit necessary for the enterprise. For the villager has the keen instincts of a man who

lives very close to nature; he will not be persuaded by those whom he has not learnt to trust, charm they never so wisely, and he will not trust those who do not seem prepared to put aside all other claims and considerations, in order to live with him, to learn his troubles, and to support him through them." (Sir Malcolm Hailey in his Foreword to Mr. Brayne's "*Remaking of Village India.*")

SUMMARY

The writer of this Paper served as an Officer in the Bombay Co-operative and Rural Development Department for more than four years successively as Special Auditor, Assistant Registrar and Rural Development Officer and Personal Assistant to the Registrar C. S. and Director of Rural Development. It is in the light of this experience that a critical commentary has been attempted on the co-operative movement in Bombay Province. The necessity for making a basic distinction between credit and non-credit co-operation has been pointed out and the controversial issue of de-officialisation has been discussed in relation to these two parts of the movement separately. An attempt has been made to account for the poor progress of the non-credit movement and the broad conclusions arrived at are that this type of co-operation does not take root if it is imposed from the top; that it requires a great deal of preliminary organisation at the bottom; that the experience so far has been that this organisational work is not done efficiently when left to the efforts of touring officers or part-time volunteers; and that non-credit movement might fare better if its organisation is entrusted to a separate cadre of "Village Workers" who will form part of the Governmental machinery but who will perform their duties on certain unorthodox lines.

The observations made in the Paper are the personal opinion of the writer.

A NEGLECTED SOURCE OF LOCAL REVENUES

BY

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The object of this paper is to draw attention to a source of municipal revenues which has been for a long time widely in use in western countries, but which is still undeveloped in India. It is not suggested that this source would be a great boon to our finances, but it is hoped that it would go a considerable way to ease the hard-pressed local bodies.

Although they are confined to cities and towns, municipalities form in every country a very important type of local government. The urban areas give the lead to the rural bodies in matters of social service and administrative reforms. It is moreover in the cities and towns that local self-government can first and perhaps best be tried and made successful. The functions and finances of the municipalities, therefore, should be a matter for serious study. Municipal governments are found in cities as large as London, New York and Bombay with populations of millions as well as in towns such as Nanjangud and Seringapatam in the Mysore State with hardly a few thousands. But though their responsibilities and resources may differ, they are the same type of local government.

The following table gives an idea of the finances of some of these bodies in India:

	Finances[1] in lakhs of Rs.				Population[2] in lakhs	Per capita					
	Revenue		Exp.			Rev.			Exp. 1937-38		
	1921-22	1937-38	1921-22	37-38		Rs.	a.	p.	Rs.	a.	p.
Bombay	202·0	330·1	322·8	327·4	11·6	28	8	0	28	3	0
Madras	59·3	103·8	58·1	105·4	6·4	16	4	0	16	8	0
Delhi	20·4	43·5	19·8	45·9	4·4	9	14	0	10	7	0
Ahmedabad	19·9	58·3	22·7	55·7	3·1	18	13	0	17	15	0
Benares[3]	9·0	14·9	9·4	16·7	2·0	7	7	0	8	7	0
Poona	12·8	19·0	12·4	19·1	1·6	11	11	0	11	11	0

The income of some of the Indian municipalities is much larger than that of most Indian States while the resources of London and New York are very much more than those of many Indian provinces. Not only is the number of municipalities increasing all over the world, but their functions are expanding both qualitatively and quantitatively. Industrialisation not only leads to the growth of towns at a pace more than in proportion to the growth of industries, but, along with an increase in population, adds to the responsibility of the municipalities by giving rise to new problems. The development of scientific knowledge, the spreading spirit of self-government and the decentralisation of the functions of the State add their share to the burden on the local governments.

[1] Statistics for 1921-22 are from Shah and Bahadurji: *Constitution, Functions and Finance of Municipalities in India*, pp. 328-29, and for 1939-40 from the Administration Reports of the Municipalities.

[2] Population figures are from the *Indian Year-Book*.

[3] Figures are for 1938-39.

The functions of municipalities are bound to be different in certain respects in different places, but they may be broadly classified as follows:—

> *Protective functions* of peace, order and health comprising sometimes the maintenance of a police force, fire brigades; *Health* department to fight diseases; *Maintenance of public utility undertakings*, e.g., supply of water, roads, transport services, gas, electricity, etc.; *Provision of educational facilities*, schools, parks, recreation grounds, etc., and sometimes even municipal universities; *Provision of charitable institutions* such as homes for the aged and infirmed.

To-day municipalities in India raise revenues in various ways which may be classified under the heads of General Taxation, Income from Municipal properties and enterprises, fines, fees and similar sources and lastly miscellaneous. The following statement shows the revenues of some important municipalities in India:

REVENUES OF SOME MUNICIPALITIES

(*Compiled from the Municipal Administration Reports*)[4]
(in thousands of Rs.)

	Benares.	Madras.	Poona.	Ahmedabad.	Delhi.	Bombay.
Rates and taxes ...	1233·3	3595·9	1398	4523·1	2236·6	15158·9
Mnnicipal property and enterprises	175·8	2972·9	197	487·6	756·6	14934·9
Grants and contributions ...	25·5	...	179	772·6	141·0	850·0
Miscellaneous ...	32·9	729·8	155	47·9	488·6	3540·1
Extra-ordinary including Capital receipts ...	28·2	7200·0	960	10023·3	827·4	279·4

[4] Figures are for 1938-39, except Delhi for which the figures are for 1937-38.

Naturally the details under these heads vary both in kind and in importance in different municipalities. Some have greater powers of taxation and others have less. Some like Bombay get four to five times as much revenue from water supply and general taxation as Madras. Some get a proportionately larger grants-in-aid from the government.

It is obvious from a study of the finances of the various municipalities that their income is increasing but not as rapidly as the expenditure and they have not paid sufficient attention to other than the routine sources of revenue. This naturally restricts their ability to increase public welfare. The annual administration reports of the various municipalities show clearly how the want of income has handicapped further progress. Thus "another measure suggested by government, *viz.*, removal of slums," runs the Poona Report,[5] "is a very costly affair in a city like Poona where heavy compensation had to be paid even for rickety old houses . . . But as the work of opening broad roads through congested areas is being carried out at great cost as funds permit, removal of slums will follow as a natural consequence." Conditions are similar in Benares:[6] "The peculiar needs of the city are many and manifold and they can be successfully attended to if the government and the Board provide large sums of money to effect substantial and lasting improvements in the urban area." "The houses in the old city" reads the Report of the Benares Public Health Department[7] "are high and streets narrow and tortuous admitting little sunlight and air. The new habitations are growing up without a plan . . . Nothing was done to improve the condition of the town in this respect (overcrowding)." "It is true," runs the Delhi Municipal Report,[8] "that the income of the committee has been expanding but

[5] *Administration Report of the Poona Municipality.* 1938-39. pp. 13-14.

[6] *Administration Report of the Benares Municipality.* 1939-40. p. 21.

[7] P. 13.

[8] *Administration Report of the Delhi Municipality.* 1937-38. p. 26.

at the same time there has been a more than proportionate increase in expenditure. As to the future, the expenditure is likely further to increase on account of various undertakings such as the maternity hospital, the growing needs of the city and the fresh areas which are being developed by the Improvement Trust and which will be handed over to us." Madras is no exception.[9] "The corporation depends chiefly if not exclusively on its own resources for meeting the innumerable civic needs of the city. Thus, finance here, as elsewhere, is the basis of all good administration." "Slums are the biggest curse of the large cities, and Madras is no exception. So far as the Corporation slums are concerned considerable sums of money have been spent on their improvement . . . However it cannot be denied that only the fringe of the problem has been touched."

It is thus evident that, much as the municipalities would like to improve their areas, they cannot do it because of restricted finances. Different remedies may be suggested for such a situation. First of all some items of expenditure may be transferred from the municipal to the Provincial governments, for instance, education, medical relief and even the supply of water, electricity, etc. In fact, some of these functions are being undertaken to a very large extent by the Government in some provinces and states, for instance, Mysore. Increasing the existing rates of taxes also means more income. Or new taxes, for instance, the advertisements' tax and the entertainments' tax, may be imposed. These two allied solutions are largely dependent upon two factors: firstly, the extent to which further taxation can be levied. The following *per capita* figures of taxation are interesting:

Delhi	Rs.	5	1	0	(1937-38)
Madras		5	10	0	,,
Poona		8	11	0	,,
Bombay		13	1	0	,,
Benares		6	2	0	(1938-39)
Ahmedabad		9	0	0	(1937-38)

[9] *Administration Report of the Corporation of Madras*, 1939-40, pp. vii-viii.

The second factor is the ethical question as to how far revenue raised by general taxation of a wide area should be used for improving conditions in particular sections of the town which can afford to pay for the benefits. Yet another means of increasing income is grants-in-aid, subventions, contributions, etc., for a general or a particular purpose to the municipality by the provincial or state government. Such help is already being rendered in varying amounts. But the extent to which it can be increased depends upon the revenues of the state and on whether such greater dependence upon state-aid would not affect the independence and self-governing ability of the municipalities. A fifth method of improving the revenues is undertaking productive enterprises, *e.g.*, starting of sewage farms, the sale of compost manures, etc. This source, however, is of doubtful dependability since the income from such enterprises is contingent upon the success of the enterprise: further, the opportunities for new enterprises vary in different municipalities; and finally, there is a time-lag between the starting of the enterprises and the accrual of profits.

Yet another source of revenue is the special assessment. It is an exercise of the taxing power but it is not a tax, since it represents specific individual benefit, distinct, traceable and measurable. The levying authority always performs some positive service the cost of which it seeks to recoup from the persons benefited. The object of special assessments "is to provide for the capital account—to increase as it were the permanent plant of the community . . . Special assessments are necessarily apportioned in proportion to the benefits accruing to the owners of real property. The usefulness of a system of special assessment is confined largely to the field of local finance; taxation finds a scope of action throughout the whole realm of public revenue."[10] Quite unlike a special tax where the question of benefit is only jurisdictional, in special assessments the benefit is also individual operating through real property. Theoretically, it is justified on the ground "where an expense is to be incurred by a

[10] Victor Rosewater, *Special Assessments: A study in Municipal Finance*, p. 133.

local authority which results in special distinct and measurable advantages to the property of particular individuals it is found equitable that those individuals who benefit thereby should contribute to the expense to the extent of those benefits, than that the burden should be placed upon others."[11] In fact, a special assessment takes away generally a part of enhanced land value and converts an unearned increment partly into an earned increment. Objections no doubt have been raised against this impost but they are either based upon abuses and defects of a particular system in vogue or are not confined in the application to any particular method of raising revenue.

Special assessments are used very widely in U.S.A. and on the Continent and to a considerable extent in the United Kingdom where they are known as the Betterment Taxes. The Revenue yielded by them varies in different countries and in different municipalities. "No American who treats of public finance as a whole," remarks Seligman,[12] "can fail to be struck by the importance of special assessments in actual practice. To take only two examples: In New York city in 1891, special assessments yielded over $2,400,000; while in Chicago, in 1890, they yielded $8,790,443—*a sum actually larger than that raised by taxes*."[13]

Such an important weapon has been neglected in our country though the possibilities are unlimited. The Todhunter Committee no doubt referred to special assessments as follows: "These taxes," they said,[14] "would seem to be particularly suited to the peculiar conditions of India under which a single local authority has to operate over an area extending sometimes to several thousand square miles." But the Committee felt that "this principle would be of great assistance in the cases of rural tracts since a tax of this nature is more acceptable to the villagers than a rate impos-

[11] *Ibid.*, p. 143.

[12] *Essays in Taxation*, p. 414.

[13] The Italics are mine.

[14] *Report of the Indian Taxation Enquiry Committee*, p. 315.

ed over the whole area under jurisdiction of the local authority." This suggestion is of doubtful value, since in rural areas land values or any other benefit cannot increase as rapidly as in towns and cities, nor in proportion to the cost of service rendered. The unearned increment in village lands, arising, for instance, by the construction of a village road connecting particular villages with the main road would be less than in towns. Special Assessments, in fact, are of greater utility in urban areas.

The special assessment can be used to meet many items of expenditure now met by the general municipal revenues and also to finance further schemes of improvement. This may be illustrated by considering the needs of any of our municipalities. For instance, the principal wants of the Ahmedabad Municipality in 1939 were described as follows:[15]

1. Increased water supply.
2. Demolition or improvement of *Punch Privies.*
3. Buildings for primary schools.
4. Relief of congestion by opening up of crowded localities, widening thoroughfares and providing housing accommodation.
5. Storm water surface drainage.
6. Improvement of Roads.
7. Construction of markets.
8. Extension of Municipal Offices.
9. Improvement in the disposal of sewage.
10. Infectious diseases Hospital, Anti-Tuberculosis measures and provision for Maternity.
11. Suburban drainage.
12. Free and Compulsory Education.

[15] *Annual Administration Report of the Ahmedabad Municipality*, 1938-39, Section IX.

13. Improvement and extension of housing for the working classes and the poor.
14. Improvement of existing chawls.
15. Additional bridges across the River Sabarmati to accelerate development of the area on the other side, and to relieve congestion of traffic on the Ellis Bridge.
16. Provision of amenities to Harijan quarters.
17. Public parks.
18. Removal of cattle from the walled area.
19. Amenities to the extended area.

Of these items 2, 3, 4, 5, 6, 11, 14 and even 17 are essentially matters of special benefit. If *Punch Privies* are improved or a primary school built or congestion relieved in a particular locality, obviously it is only the area which benefits directly and immediately that must be made to pay for the improvements effected. The amount spent on such items could and should be recovered in whole or in part from the particular locality. It is unreasonable to call upon other areas to pay for improvements which increase the value of sites, shops and buildings in some other locality. On the other hand, improvements in the disposal of sewage and extension of municipal offices, or an Infectious Diseases Hospital are of general benefit to the city and naturally must be financed from the general revenues.

To take the case of Madras: the city's needs were considered to be the following:[16]

1. Reforming and tarring of the roads.
2. Construction of durable and smooth pavements.
3. Abolition of slums.
4. Underground sewers, public conveniences, etc.

[16] *The Annual Administration Report of the Corporation of Madras*, 1939-40, pp. vii and ff.

5. Improving the water supply—*e.g.* The Pundi Reservoir.
6. Educational facilities—schools, playgrounds, reading rooms, etc.
7. Public Health—dispensaries, anti-mosquito campaigns, child-welfare centres, etc.

It is, no doubt, difficult to separate all these items into those increasing general benefit and those for special benefit of particular areas. But the elimination of the dust nuisance by the tarring of a particular road or the reforming of a road, or the introduction of underground sewars and public conveniences are obviously of particular benefit to particular areas, quite in contrast with the Pundi Reservoir, which is for general benefit. Likewise, the control of epidemics is for general benefit, while the establishment of a dispensary in a particular locality is a special benefit. The opening of playgrounds and reading rooms benefits a limited area, while expenditure on educational films is of common advantage. If the expenditure on items of particular benefit is charged to the areas bettered by the improvement, greater justice will be obtained and sums now spent on them from the general revenues will be released for general utility purposes. Whether the whole of the expenditure could be realised always through special assessments and whether a particular improvement benefits all or a few is a matter of detail depending largely upon the peculiar circumstances of the municipality. It will be easy to decide on each particular issue as it arises. There is, however, one circumstance where the whole town has to contribute for particular benefit and this is in the case of the poorer sections of the population. Thus, for instance, when housing conveniences are given to the poor or free canteens established, the beneficiaries are unable to pay and are really wards of the town in general, although, in theory, the benefitting locality must bear the burden. General revenues, therefore, should be used for such purposes.

In western countries many of the items mentioned above have been met by special assessments. In Massachusets for

instance this 'tax' has been levied for any public improvement wherever there is special advantage. In New Jersey it is employed for opening, widening, paving, etc., any road or street, for construction or improvement of sewers and drains, for improving waterways for establishing side-walks, etc. "In New York city as well as in other cities of the country," writes Professor Buck,[17] "both parks and playgrounds have been financed in whole or in part by the use of special assessments. The cost of installing ornamental lighting systems and high-pressure fire-fighting systems have been financed by special assessments in a number of cities." In San Francisco, the levy was used to extend the municipally owned traction lines and in Detroit for building the transit system. There is no reason therefore why the Indian municipalities should not adapt this source of revenue.

If special assessments are adapted should we follow the cost basis or the benefit basis? Both these systems are in vogue in other countries. But the former should be preferred. For costs can be measured but not benefits. We can know definitely what it costs to open a particular road or to provide underground sewers, but the benefit which a site or house derives from that improvement may be very much more than the expense incurred. Benefit moreover increases with time. Such an increase can be taxed by employing the ordinary taxes such as the house tax.

Although in theory only capital expenditure must be realised by this levy current expenditure for maintaining the improvements effected might also be charged to special assessment. In fact, in America, in 1923, 91 out of 248 cities with a population of 30,000 or over levied this impost for current expenses.[18]

Finally, many questions of administration such as the interpretation of cost and benefit, the method apportioning the cost, the type of property assessable, the frontage and area method, the depth curve, time of levy, methods of payment, etc., are some of the problems which arise and which have been successfully solved in other countries.

[17] *Municipal Finance*, p. 397.

[18] *Ibid.*

They are matters of detail which are not discussed in this paper. My object will be served if our municipalities seriously consider developing special assessments firstly, to make the benefitting person pay for the advantage instead of the general community bearing the burden, secondly, to divert revenue now spent on such items for the benefit of the poorer sections of the community or of the city in general, and lastly to raise additional revenue in order to undertake projects of public welfare contemplated but not executed.

THE SCOPE OF LOCAL FINANCE

BY

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The purpose of the paper is to examine whether the principles of Local Finance are in any way different from those of National Finance. The principles are the same but with some fundamental difference. While national expenditure confers benefits which are not of immediate interest to the citizen and which he enjoys only as a member of the nation as a whole, local expenditure confers benefits which the citizen enjoys as an individual and whose absence he feels keenly and immediately. Hence the individual takes more interest in Local Finance.

It is not correct to say that the difference arises because local taxation and the benefits conferred by the expenditure out of such taxation bear a close relationship. The benefit theory is only a truism, if by it we mean that the state is taxing because it is conferring some benefits; the state exists for securing benefits to the members of the community and all expenditure is intended to attain the end; but if we mean that in local finance as we get it to-day we can easily connect the benefit secured and the tax paid, we will be wrong because the establishment of such a connection is no more easy than in the case of National Finance.

The causes governing the optimum scope of local finance lie elsewhere. As the functions of the State increase, it would be found that the Local area is a more suitable unit for the carrying out of certain functions and policies of the national Government. For all production and consumption, there are certain suitable economic units and as a big national state is not an ideal unit for all expenditure, local bodies are a necessity.

I think that this should be the true scope of Local Finance. We must know all the functions of the State and

then delegate to the local bodies all functions which are not only of local interest but can be performed by these bodies with the maximum of efficiency. Economy in administration is the prime factor in deciding local functions. I admit that to-day it is not so. But from the standpoint of purely economic considerations, it is desirable that economy and efficiency should be the only criteria. The functions of local bodies should not be allowed to be determined by historical, geographical or accidental factors if we want the maximum benefit.

How then can we exactly decide what the function of a local body should be? We can answer this question when we can find out the best agency to carry out each particular function with the greatest economy. The application of this test limits the existing scope of the Local functions on the one hand and expands them on the other. While all those functions which the National state alone is fit to carry out are ruled out, many of the functions which the individual to day is carrying out for himself can be included within the scope.

This requires a little more explanation. It is my firm conviction that all the wants of the members of a society can be satisfied with the greatest economy and efficiency by grouping them into various units for consumption. Thus for the satisfaction of some wants the individual is an ideal unit, *e.g.*, dress, etc., for some others the family, *e.g.*, housing, for some others local boards, *e.g.*, water supply and for the rest the National State, *e.g.*, protection from external attacks. So organisation in expenditure helps us to derive more satisfaction in consumption. Organisation is as good a factor of consumption as of Production,—Incidentally, it is my view that there are factors of Consumption also but this is not the place to discuss them.

So then, if we confine ourselves to this point of view, the scope of Local Bodies is limited to those functions that it can carry out best as an ideal unit of consumption. The particular merit of this scheme is that there will be no clash of functions among various Units and the scheme fits in well with the General scope of individual and Public economy and shows how public and private finance meet each other

and it limits the scope of Public Finance itself. There is but one basis for deciding the scope of individual, local or national functions. Which is the best unit for consumption for the satisfaction of particular Want?—the answer tells which body should take up what function. The only criterion is Economy.

From this point of view, the present Local Boards in India and elsewhere can easily expand their functions and ask the people to pay more. It is idle to speak of Taxable capacity, or to say that it is high or low. It is absurd to suggest that people have no more capacity to pay the Local Boards, as long as there is any more money with them which they are spending to satisfy wants which can best be satisfied by the Local Boards. It is not the proper place to discuss and elaborate the new meaning of Taxable Capacity, but by this time the reader can appreciate the connection between Taxable Capacity and units of consumption. Thus it might happen sometimes that while the taxable capacity for national functions has been exceeded, that for local functions has not been. I think that is the situation now in India.

The above functions given to the local boards naturally limit the scope of Local Finance. The total income of the people should be so distributed on all wants and among the various units for consumption in such a manner as to yield the maximum satisfaction to the people. The share of the state should be collected as taxes, the share of the local boards as prices and fees and the rest should be allowed to remain with the individual for his personal expenditure. For all the services it renders, the local board should charge a price or a fee. We have already stated that most of the functions of the Local Board are those direct services in which the individual is interested and which they would anyhow carry out for himself in the absence of Local activity, *e.g.*, scavenging, water supply, etc. How much should be taken from the citizens, *i.e.*, the taxable capacity is thus easily settled. The maximum extent to which a citizen should be asked to pay for a particular service is settled by what he would have spent himself to satisfy this want if the Local Board was not supplying it.

There is not much scope for taxation in Local Finance. None of the purposes for which taxation is generally intended is within the scope of Local Boards. The State has got its own financial needs and it should necessarily exist for the Society, *i.e.*, we almost cannot imagine a Society without a State. But Local Boards exist only for administrative convenience. While the major part of the expenditure of the National Government does not bear any direct relation to the individual, it is easy to connect the individual with the benefit from Local expenditure and so we can charge him according to it. Hence while taxation is suitable and justified in National Finance, it has no proper place in local finance where prices and fees would be better.

There is one more source open to Local Boards. If the National Government thinks that any of its functions can better be carried out by being administered by Local bodies then it may make a grant to them out of its tax revenue. Thus the Government's Socio-political purposes, *e.g.*, reduction of inequality, etc., can best be served by the Local Boards out of such grants from the Central Government which will be spent for supplying some essential services to the poor.

SUMMARY

I believe that in Pure Economics, the criterion for 'good' should only be Economy, *i.e.*, maximum production and maximum consumption.

The scope of Local Finance also should be decided by this criterion.

Man has many Wants and these Wants can be satisfied with the Maximum Social Advantage by consuming them in different ways. Thus some can be consumed best on an individual basis, *e.g.*, dress, and some as a member of a Locality, *e.g.*, water supply etc., and some as a member of a big State, army, etc. So there is a Unit for consumption for every Want depending on its nature.

The production for the consumption of all the Wants that can best be carried out by the Local Boards should form the true scope of Local functions.

For Local finance, Prices and fees will be better than taxes. Tax is intended for various purposes like reduction of Inequalities of Income, etc., and none of these functions, the Local board

carries out. Again in National functions, it is difficult to connect individual benefit to the cost, whereas in Local services it is easy. Hence taxes for Local bodies are ruled out where prices and fees would be better. But the Central Government can carry out certain of its functions like reduction of Inequality, etc., by making grants to the Local Bodies to supply services free to the poor. This is another source for Local finance.

This must be the true scope of Local finance. The merit is that there is no clash in either functions or sources between Local and Central Governments.

FINANCES OF DISTRICT BOARDS IN MYSORE

BY

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Mysore which has the reputation of being a model state has always been ahead of her sister states and in some respects even of the British Indian Provinces, in Constitutional development, Industrial progress, Economic betterment of her people. The unique feature of Mysore has been the identity of interests between the rulers and the ruled and the benign and enlightened rulers of Mysore have always shown their willingness to respond to popular aspirations and give greater scope for the people to participate in the conduct of the administration of the state. One of the means by which people are associated in the administration is by the development of different agencies of Local Self-Government such as village Panchyats, District boards and Municipalities. The aim of this study is to consider the part played by the District boards and examine their financial position with a view to estimate their usefulness to the country.

The History of the District boards may be traced as far back as 1860 when a plough tax was fixed by the Commissioner for the improvement and construction of roads in the country. Fees levied on Ferries and the proceeds collected out of fines and sale of stray cattle was also used for this purpose. With the commencement of Revenue Survey in 1865 a cess of one anna in the rupee on the basis of Land Revenue was substituted for the plough tax. A cess was levied on excise and forest revenues in 1872. Out of the total collections a certain proportion was used for the propagation of Education and the rest was used for Roads,

medical relief and travellers' bungalows. In the beginning these funds were administered by the district officers on their own authority and initiative. In 1874 Committees consisting of selected non-official gentlemen were fixed in the districts to help the district officers in the work. However these committees were not really effective and did not evince any keen interest in the affairs of the district till 1918 when the district boards were authorised to have a majority of elected non-official members, with further additions to their functions and were given the privilege of having non-official presidents and vice-presidents. At the same time the importance of awakening the interest of the people in rural improvement by developing autonomous institutions in the villages had been recognised and village improvement committees, and Taluk boards had been constituted since 1902. Unfortunately these units of local administration were practically defunct. Consequently they were abolished in 1927 and the establishment of a Village Panchyat for each village or a group of villages with separate sources of revenue to meet their needs was sanctioned by Government by the Village Panchyat Act. The District Boards Act was also accordingly amended and they were assigned specific sources of revenue and entrusted with well-defined functions. The District boards have the following sources of revenue:—

1. Local Cess—comprising of cesses on L. R., Excise and forest revenues.
2. Income from tolls and ferries.
3. Motor traffic revenue.
4. Fees from Markets.
5. Fees from Travellers' bungalows and Musafir-khanas.
6. Miscellaneous receipts.
7. Railway cess in all districts except Bangalore and Hassan.

8. Education cess (administered by the Education department).

The functions performed by the District boards are classified under two divisions as (1) obligatory (2) optional.

(1) *Obligatory*:

1. Construction, repair and maintenance of public roads.

2. Establishment and maintenance of hospitals, markets and travellers' bungalows.

3. Measures for the improvement of public health and sanitation of the district and sanitary precautions of *jatras* and fairs.

4. Construction and repair of public wells.

(2) *Optional*:

(*a*) Registration of Vital statistics.

(*b*) Improvement of the Economic condition of the District by the encouragement of local arts and industries, holding of Agricultural and Industrial Exhibitions and Cattle shows.

(*c*) Encouragement of Co-operative Societies.

(*d*) Relief work in times of distress.

A careful study of the functions assigned to be performed by the District boards and their sources of revenue will reveal a striking disparity between the two. The following statements give the details of income and expenditure of the District boards. Figures have been compiled for the year 1920; and for a period of four years from 1936—40 for purposes of comparison, classified according to items of revenue and expenditure and also according to the different districts in the state.

Table I showing the different sources of Income for the District Boards in Mysore.

	1920	1936-37	1937-38	1938-39	1939-40
Local Cess ...	8,26,216	8,85,038	7,86,676	7,72,890	8,08,560
Tolls ...	31,849	1,12,670	1,41,646	93,012	1,46,090
Ferries ...	...	...	4,515	3,174	...
Markets ...	30,535	1,29,489	1,37,742	1,35,822	1,35,881
Travellers' Bungalows	...	...	10,220	9,648	9,039
Motor Permit fee ...	...	45,259	1,46,189	1,30,385	1,10,484
Interest on Investments	...	...	1,24,585	3,791	...
Contributions	...	...	42,808	87,208	82,085
Other Items	...	...	52,615	58,853	36,688
	13,64,375	12,74,475	14,46,814	12,84,783	12,38,827

Table II showing the Income of the different District Boards in Mysore. (Districtwise).

	1920	1936-37	1937-38	1938-39	1939-40
Bangalore	1,74,840	1,82,174	2,07,899	2,10,633	1,96,087
Kolar	1,65,158	1,94,867	1,80,544	1,90,310	1,03,632
Tumkur	2,07,878	1,37,085	2,73,774	1,45,769	1,84,827
Mysore	2,78,749	2,21,579	2,62,171	2,51,616	2,46,623
Hassan	1,71,136	1,53,215	1,77,512	1,27,375	1,67,320
Kadur	77,552	91,158	84,424	89,268	88,933
Shimoga	1,30,407	1,06,176	1,36,731	1,16,090	1,35,566
Chitaldurg	1,57,855	1,88,221	1,23,459	1,53,722	1,15,839
	13,64,375	12,74,425	14,46,814	12,84,783	13,38,827

Table III showing the various items of expenditure of District Boards in Mysore.

	1920	1936-37	1937-38	1938-39	1939-40
Public works by P. W. D.	5,95,814	8,94,148	5,71,642	3,66,646	5,41,552
Public works by Civil			97,830	80,750	85,583
Contribution to Drinking water			41,937	41,860	14,543
Administration and collection			1,42,916	1,37,878	1,55,019
Conservancy and Sanitation			67,820	83,141	75,823
Medical Relief	1,28,381	3,01,261	3,86,900	2,38,464	4,50,200
Accomodation to Travellers			40,959	35,385	33,175
Other items.			1,08,603	64,225	94,052
	11,34,519	15,67,300	14,58,607	10,48,349	14,49,447

Table IV showing the expenditure of the several district boards in Mysore.

	1920	1936-37	1937-38	1938-39	1939-40
Bangalore ...	1,34,980	2,61,102	2,58,365	68,187	2,41,174
Kolar ...	1,55,728	1,21,966	1,78,283	1,71,550	2,03,670
Tumkur ...	1,37,880	1,80,594	1,37,727	1,41,269	1,48,763
Mysore ...	2,27,166	3,42,848	3,34,674	2,12,422	3,38,58
Hassan ...	1,31,504	2,07,363	1,61,406	1,24,733	1,71,063
Kadur ...	95,253	90,373	86,853	67,185	1,06,192
Shimoga ...	1,57,966	1,17,219	1,32,423	98,581	1,25,315
Chitaldurg ...	94,042	1,73,698	1,68,876	1,64,452	1,39,412
	11,34,519	15,67,300	14,58,607	10,48,349	14,49,447

The Committee appointed by the Government to examine the finances of the District boards in 1936, after careful examination of the subject wrote "While the scope for the extension of the benefit services in rural areas is practically unlimited, a lack of elasticity is the characteristic feature of the bulk of the revenues at their disposal." This is not peculiar to Mysore. Local boards in several provinces in British India are in the same position and faced with the same problem. A rapid expansion of services in recent years and the consequent growth of recurring expenditure beyond the level of their normal income have upset the financial equilibrium of the state. It can also be seen that a very large proportion of the revenue of the boards is administered by various departments of Government like Public works, medical, and public health. Primary Education which was under the control of the Boards for some time past has been taken over by the Government once again with the result only a small portion of their revenues are spent by the boards directly on minor road works, in making sanitary arrangements in markets, fairs, and maintenance of Ayurvedic and some rural dispensaries. With the establishment of village panchayats with separate functions and revenues the initiative for improvement work has necessarily passed on to the village panchayats. Consequently a dubius note is struck in certain quarters that the village is the real unit of popular life while these boards are artificial creations which may be safely abolished. On this issue the Committee state that these bodies will yet have a useful part to play as they can mobilise and focus intelligent public opinion on rural problems and act as a valuable adjunct to the District administration in all matters affecting the well-being of the people of the District."

There are at present nine boards in the state of which the Mandya District board is a recent creation. A few of the important items of income and expenditure may be individually examined with a view to estimate the financial position of the District boards and make suggestions for improvement.

Local Cess.

		1920	1936-37	1939-40
Bangalore	...	1,31,609	1,22,812	1,15,977
Kolar	...	1,16,823	1,09,261	1,06,332
Tumkur	...	1,24,112	97,261	1,28,644
Mysore	...	1,54,284	1,67,439	1,71,565
Hassan	...	80,985	88,239	80,286
Kadur	...	57,133	60,911	55,497
Shimoga	...	86,088	75,893	84,725
Chitaldurg	...	75,182	63,222	65,534
		8,26,216	7,86,038	8,08,560

It is clearly seen that local cess which forms a substantial source of revenue is inelastic and is tending to decline in recent years.

Markets.

		1920	1936-37	1939-40
Bangalore	...	2,225	24,569	25,491
Kolar	...	1,275	26,123	24,062
Tumkur	...	...	10,556	9,895
Mysore	...	11,684	21,525	26,120
Hassan	...	11,000	26,904	27,525
Kadur	...	135	8,012	9,188
Shimoga	...	2,561	5,188	5,935
Chitaldurg	...	655	6,612	7,715
		30,535	1,29,489	1,35,881

Income from markets is an expanding source of revenue, but there has been a great deal of slackness in collection and arrears are allowed to accumulate.

Tolls and Ferries.

	1920	1936-37	1939-40
Bangalore ...	...	11,679	11,679
Kolar ...	...	3,896	4,280
Tumkur ...	...	12,982	14,580
Mysore ...	18,761	14,195	15,635
Hassan ...	6,324	21,285	44,553
Kadur ...	857	9,489	12,641
Shimoga ...	5,331	11,344	13,539
Chitaldurg ...	676	22,800	25,871
Total ...	31,849	1,12,670	1,42,090

Under this item too the income has expanded in recent years, but has not much further scope for increase.

Motor Traffic Revenue.

	1920	1936	1939
Bangalore ...	...	9,095	23,860
Kolar ...	...	7,179	14,028
Tumkur ...	...	5,940	16,078
Mysore ...	...	14,020	26,570
Hassan ...	...	4,925	5,735
Kadur ...	...	4,100	4,868
Shimoga ...	...	...	6,812
Chitaldurg ...	...	...	9,885
		45,259	1,10,484

Motor traffic revenue is the one elastic source of revenue of boards with the possibilities of increase of Motor traffic.

The Expenditure of district boards has enormously grown in recent years with the result that the financial statement of the several district boards has always shown a deficit.

1. Public Works.

		1920	1936	1939
Bangalore	...	75,119	1,48,594	1,12,140
Kolar	...	82,463	1,15,989	78,384
Tumkur	...	65,716	1,03,037	70,133
Mysore	...	1,18,077	1,80,655	1,45,039
Hassan	...	75,963	1,26,402	82,268
Kadur	...	55,262	37.352	38,664
Shimoga	...	82,596	61,916	45,741
Chitaldurg	...	40,618	1,20,203	54,766
		5,95,814	8,94,148	6,27,535

The expenditure in public works has greatly increased imposing a heavy strain on the financial resources of the District boards. Some of the boards have accumulated arrears and others have tried to meet the deficit by drawing upon funds set apart for other purposes.

Another item of expenditure which has grown in increasing proportions is regarding medical relief in the State.

Medical relief.

Bangalore	...	...	16,588	53,450	77,529
Kolar ...	...	...	16,232	48,862	65,662
Tumkur ...	...	...	15,007	40,154	40,641
Mysore ...	...	...	32,545	77,368	1,05,972
Hassan ...	...	...	18,388	39,412	39,831
Kadur ...	...	...	18,591	27,274	39,405
Shimoga ...	...	...	...	...	47,907
Chitaldurg	...	...	1,033	14,741	33,253
			1,28,384	3,01,261	4,50,200

The growth of medical relief by the boards car also be seen by the following figures relating to dispensaries:

	Local Fund		Ayurvedic		Midwives	
	1936	1939	1936	1939	1936	1939
Bangalore	29	32	47	36	33	34
Kolar	25	26	28	31	31	32
Tumkur	26	27	10	10	32	26
Mysore	44	47	43	45	50	58
Hassan	35	34	4	3	39	36
Kadur	17	17	9	5	10	10
Shimoga	24	27	6	5	24	24
Chitaldurg	21	27	7	7	21	25

Besides the boards have also numerous other functions to perform which they cannot undertake for lack of funds. The development of Cottage industries, measures to relieve distress in rural areas, economic improvement of the different parts of the state construction of water wells, Inter-Village communications are matters requiring immediate attention.

In the words of the Indian Taxation Enquiry Committee "The finances of the local bodies all over the country are inadequate for the services which they have to perform." This is largely true in the case of the District boards in Mysore. The various sources of revenue with the exception of Motor traffic revenue are inelastic. It is difficult to suggest any new source of revenue though a case is made out for the levy of a special cess. In view of the many problems of rural areas awaiting immediate attention, and in view of the fact that the burden or incidence of local taxation in our country is comparatively low (as pointed out by the Indian Taxation Enquiry Committee) there is sufficient justification for the levy of a special cess. As the Mysore District Boards Finances Committee have pointed out a special cess of 3 pies in the rupee may be levied. The possibility of levying this cess on Income-tax in addition to Land Revenue is a problem which deserves consideration.

It is pointed out that there is slackness in collection work on the part of the District boards and that here is also not a small wastage in the administration of the funds. The various District boards must take necessary steps for the efficient collection of their arrears and at the same time there must be an initial and collective check in the office of each District board against irregular and extravagant expenditure and the undertaking of commitments which the annual income of the District boards cannot bear. This can be secured by close scrutiny and audit of the accounts annually. Periodical enquiries into the financial position of the boards will also minimise wastage in expenditure.

Lastly, in view of the many essential services which the district boards are expected to perform it is reasonable for them to hope for grants in aid by the Government. It has been pointed out by Lord Balfour, the chairman of the Royal Commission on Local Taxation in England (1901), that grant-in-aid to local agencies by Government should be in the form of block grants for each service and distributed according to the needs of the localities. In this connection the measures undertaken by the Mysore Government are worthy of consideration.

Realising the urgent need for more drinking,water wells in Rural areas, and the inadequacy of local agencies to finance them, the Government of Mysore have made a generous grant of Rs. 15 lakhs spread over for five years for the construction of water wells all over the state.

As a part of the State Rural Reconstruction programme, the Government have set apart four lakhs of rupees for the construction of inter-village communications by supplementing to the funds of the Panchayats and District Boards.

Another important aspect of Rural development in Mysore is the encouragement given to rural industries in the State. A block grant of three lakhs of rupees has been made for cottage industries with a view to provide necessary assistance for local artisans and craftsmen (who are suffering for want of financial support by way of granting loans at low rates of interest repayable in easy instalments.)

In view of these and many other benevolent acts of Government one may reasonably look forward for a 'More prosperous Mysore.'

SUMMARY

Introduction.

History—Origin and development of District Boards in Mysore—General remarks on the finances of the District Boards—Examination of the sources of revenue and items of expenditure—Tables I to IV.

Features of the present finances of District Boards—inadequacy—Extravagance on the part of boards—Lack of control and audit; heavy arrears.

Possibilities of increasing revenues—a case for the levy of a special cess,—cess on income-tax—grants-in-aid;—Work of the Mysore Government in this direction:—

A. Water Supply.

B. Inter Village Communications.

C. Cottage Industries.

SOME ASPECTS OF VILLAGE PANCHAYET FINANCE IN MYSORE STATE SINCE 1927

BY

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1. *Introduction.*

The year 1927 is taken as the starting point for study because it is an important landmark in the history of the development of village self-government in Mysore. Prior to 1927 there existed a number of Village Improvement Committees and Unions based upon the local Boards Regulation of 1902 and the Mysore Local Boards and Village Panchayets Regulation VI of 1918. In 1926 with a view to making better provision for the administration of local affairs by the villagers themselves a new Village Panchayet Bill was passed. The Regulation came into force on the 1st February, 1937 and launched the newly constituted Panchayets on a career of wider and fuller activities. Thenceforth the village panchayets have become important local agencies for carrying out the Government's policy and programme of rural uplift. Not only have they been of immense value in promoting the art of self-government but they have also played a notable part in the field of rural reconstruction in the state. They are becoming increasingly important as the institutions responsible for the development and direction of a large number of activities of the villagers.

2. *Functions of the Village Panchayets.*

The Village Panchayets are entrusted with a large number of duties, some obligatory and others to be taken up at their discretion. Within the range of these duties are the care of rural health and sanitation including medical aid; regulation of buildings; the promotion of education, creating facilities for travellers; giving relief to the poor and the

sick; the provision of water-supply and lighting; the development of communications, agricultural co-operation, industries and trade and the taking of "various other measures of public utility calculated to promote the safety, health, comfort or convenience of the residents of the area." In addition to these, the Government might entrust them with the task of managing the village forests and minor muzrai or other institutions. The comprehensive nature of the functions entrusted to the Village Panchayets is in keeping with the agelong tradition, in Mysore as in the rest of India, of a great degree of village Self-government. The Village Panchayets formed on such a statutory basis must greatly aid in resuscitating cooperative activity in a world wherein promotion of happiness depends on the development of a far greater number of activities than in the past. A fully developed Village Panchayet will, indeed be, the main spring of all the various activities which go together to make up the life of the village,—of the nation.

3. *The Sources of Revenue of the Panchayets.*

It is obligatory on the part of every Panchayet to levy taxes—not exceeding the Government-prescribed maxima—on houses, shops, vacant sites, backyards and carts in the area of its jurisdiction. The Panchayet may also levy any other tax, cess, rate, or fee with the previous sanction of the Government provided that such a levy has been acceptable to 2/3 of the number of members of the Panchayet. Other sources of income are the realisation of all fines, surplus proceeds of sale of cattle under the Cattle Tresspass Act 1871 (1892), Government grants-in-aid, contribution from the District Boards, donations from individuals and (since 1931) loans raised by the Panchayet.

4. *Object of this Paper.*

It is the object of this paper to examine certain aspects of finance of village panchayets in the state as a whole since 1927-28, with a view to making a few definite observations. A few suggestions wherever deemed necessary and appropriate will be attempted.

5. *Financial Inadequacy.*

A Panchayet may be said to possess adequate finance if it has enough to undertake several items of work necessary to bring the village up to the standard of betterment achieved by a relatively few villages selected by the Government to serve as Model Villages. The villages selected are those in which the Panchayets possess relatively greater income. Further, the Panchayets of these villages receive not less than 50% of the 'Assignments made to Village Panchayets' out of the Provincial Revenues. In addition, these villages get their share out of other grants and contributions made by the Government and District Boards. The following table furnishes the basis for forming rough estimate of the average income of a Panchayet which may be described as adequate finance.

Year	No. of Model Villages.	Assignments, grants and contributions.
1936-37	182	Rs. 1·66 lakhs
1937-38	193	„ 2·53 „
1938-39	234	„ 1·18 „
1939-40	262	„ 1·48 „

The standard of adequacy may therefore be put at not less than Rs. 800/- on average per village Panchayet.

The following table shows the number of Panchayets in the State and their aggregate income in each of the 14 years since 1927-28.

Year	1927-28	1928-29	1929-30	1930-31	1931-32	1932-33	1933-34	1934-35
No. of Panchayets. ...	8863	8898	8945	10251	10582	10604	11266	11257
Income (in lakhs of Rupees). ...	8·63	12·31	13·93	8·87	8·44	9·09	8·95	8·79

Year	1935-36	1936-37	1237-38	1938-39	1939-40	1940-41
No. of Panchayets ...	11255	11574	11843	11845	11941	12028
Income (in lakhs of Rs.) ...	9·58	11·66	11·14	8·44	9·96	14·14

Though it is not possible to state the exact extent of inadequacy, it can be said that relatively to financial needs, the revenue of the Panchayets is extremely meagre. The annual income varies between the maximum of Rs. 14·14 lakhs in 1940-41 and the minimum of Rs. 8·44 lakhs in 1931-32 and in 1938-39 during the past 14 years. On average the annual income of one village panchayet is below Rs. 100. There are, however, a number of panchayets whose annual income is higher as indicated by the following figures relating to 1939-40:

Number of Panchayets whose income was between Rs. 300—Rs. 500	...	334
Between 500— 1,000	...	142
Between 1000 and above	...	29

These represent about 4% of the total number of Panchayets, so that the remaining about 96% of the village panchayets have an annual income below Rs. 300. Of the latter, a very large percentage have an annual income below Rs. 100 only.

6. *The Disparity between the Annual Demand and Annual Collection of Taxes.*

Not only is the income low but it is lower than what it ought to have been, because of the fact that the collection of the taxes has continually fallen short of the demand. The repeated observation by the Government in every year's annual administration report is that the collection work is unsatisfactory. In no year has the collection reached even 50% of the *total* demand, (*i.e.*, including arrears of demand).

Comparative Land Revenue, Collection and Demand.

1927-28 1928-29 1929-30	Collection less than 50% of the total demand
1930-31 1931-32	" 25% "

1932-33 1933-34 1934-35 1935-36 1936-37	Collection less than	20% of the total demand	
1937-38 1938-39 1939-40	"	16%	"
1940-41	"	25%	"

As can be seen in the above figures there has been a regular progressive fall in the percentage of collection in relation to the total demand. It is encouraging to find that in 1940-41 the collection is about 25% of the total demand, thereby reversing the downward trend.

7. *Accrued Arrears.*

The new scheme was inaugurated with a heavy balance of arrears of Rs. 7·40 lakhs made over to the Panchayets by the old Village Improvement Committees and Unions. To this has been added every year sums in lakhs of rupees as shown below:—

Year	1927-28	28-29	29-30	30-31	31-32	32-33	33-34	34-35	35-36	36-37	37-38	38-39	39-40	40-41
New arrears	4·87	3·02	2·50	5·68	6·33	5·06	5·02	5·41	3·93	1·97	2·80	4·41	2·59	1·91

Thus, the large amount of arrears (45·57) outstanding at the commencement of 1940-41 represents the cumulative arrears of several years.

The unsatisfactory state of collection work in the first year of the new scheme itself may be attributed largely to the fact that the work had been entrusted to the Chairman of the Panchayets who are only honorary workers from whom the required amount of interest was not forthcoming. Chiefly as a result of making use of the services of Patels and Shanobhugues for collection of Panchayet taxes paying them

'Potgi' (as in the case of Land Revenue collection) better results were obtained in the next two years. Unfortunately the Economic Depression set in. It was mainly due to the effects of this that during the five years since 1931-32 the new arrears are between Rs. 5-6 lakhs. It was also due to the reluctance on the part of the Panchayet Chairman, on whom the primary responsibility lay for collection, to undertake with due earnestness the 'unpleasant' task. Since 1935-36 generally there has been improvement. This may be attributed to the shifting of the primary responsibility for the work from the Panchayet chairmen to the Revenue officials. The sudden increase in new arrears in 1938-39 was attributed to unfavourable seasonal conditions. In 1940-41 for the first time in the whole period of the year's collection exceeds the year's demand. This is indeed a very hopeful sign. The improvement in collection of Panchayet taxes in recent years is in so small measure due to the measures taken by the Government.

The chief difficulty seems to be that the Panchayet taxes are the taxes most grudgingly paid by the village tax-payer and no opportunity at evasion is missed. This habit of mind can be said to be the result of various factors such as illiteracy, ignorance, poor income and a general 'reluctance to submit to fresh taxation even for their own benefit' (M/s. Jathar and Beri).

8. *Remission of Arrears.*

A representation was made to the Agriculturist's Relief Committee in 1934 that the Panchayets should be given the option to continue or suspend the collection of village panchayet taxes as the levy of these pressed heavily on the agriculturists. The Committee recommended that arrears which accrued prior to the year 1930-31 may be written off and that of the arrears relating to subsequent years not more than 50% may be written off provided that the balance together with the current year's demand was paid within a stipulated period. In 1936, the Government issued standing orders to the Deputy Commissioners that the arrears relating to years prior to 1930-31 might be written off unless there is

reasonable prospect of recovery. Even before 1936 remissions were made in all deserving cases, without creating the impression among the villagers that long-standing defaulters get concession. This policy of cautious remissions should be extended to all irrecoverable arrears which not only causes confusion in accounts but also leads to watered demand. In this connection it might be useful to have centralised statistics as to the amount of arrears still outstanding out of the demand for each of the several years.

9. *Commutation of Arrears into Labour Service.*

The total amount of arrears is so big that it may not be possible to realise it all in money from among the rural population. There is provision in the Act permitting the tax-payer to render 18 days 8 hours a day labour in the year valued at not less than six annas. The suggestion that the defaulters be compelled to give labour service to the extent of the arrears might be considered in detail. The labour obtainable this way will be the Panchayet's contribution supplementing the Government's grant of funds for specific items of village improvement which is being made. Co-ordination between the agency administering the grants for specific items of Rural Reconstruction and the Panchayets, on the question of getting the required labour in this way is to be effected. This would be very beneficial also in promoting interest in and co-operation by the villagers in the Panchayet works. Entrusting the works of public utility to local contractors as far as possible may be of help in this direction. This would incidentally remove a widely prevailing cause for complaint associated with entrusting rural work to outside contractors.

10. *Agency for Collection of Panchayet Taxes.*

Till 1935 the village Panchayet Chairmen were primarily responsible for the collection of taxes. They could, however, utilise the services of the Shanbhogues and Patels by paying the latter 'Potgi' as in the case of Land Revenue Collections. From 1935 the primary responsibility for the collection is shifted to the Revenue Department. In the

present circumstances the collections are bound to be greater than when the Government evinces as much interest in it as in collecting the Land Revenue than when the Panchayets are left to collect the taxes for themselves. A single agency for collection of both the Government taxes and local taxes is advantageous, because the Chairmen of most of the Panchayets happen to be either the Shanbhogue or the Patel. So long as competent men other than the Shanbogues or Patels capable and willing to run the administration of Panchayets on progressive lines can be found, the making of village officials responsible for the collection of village panchayet taxes cannot be objected to on grounds of theory as affecting the autonomous character of these local bodies. It is necessary to continue to give relief to the village panchayets with respect to this work. The Government have kept in constant view the aim of promoting self-government side by side with the desire to achieve tangible immediate results. There has been entire identity of interests between the ruler and the ruled and a formal transfer of the authority, in respect of collection, to the Panchayets themselves will come when the latter are trained for it.

As this would mean additonal work to the Revenue officials, the Government have appointed special Revenue Inspectors to assist them in the panchayet collection. The decrease in the new arrears added from 1935-36 noticeable in the table given under accrued arrears must be attributed largely to the shifting of the primary responsibility to the shanbhogues and Patels from the Village Panchayet Chairman in the villages. The proposal under consideration by the Government of bringing the village Panchayet demand on the Land Revenue Khate must facilitate the work of these village officials to a great extent.

11. *Judicious Expenditure.*

The somewhat conservative nature of the expenditure may also have indirectly fostered apathy in the tax-payer towards payment of the village Panchayet tax. Small and meagre as the income has been, the available funds have not been fully utilised. There has been locking up of large

portions of the revenue as can be seen in the following table:—[1]

Year	Amount available (in lakhs)	Amount spent (in lakhs)	Bal. at the end of the year.
1927-28	16·21	2·81	13·40
1928-29	26·52	4·50	22·02
1929-30	35·93	7·42	28·61
1930-31	37·37	7·59	28·78
1931-32	38·12	7·25	30·87
1932-33	39·98	7·52	32·46
1933-34	41·56	8·11	33·45
1934-35	42·20	12·13	30·07
1935-36	39·65	9·98	29·67
1936-37	41·29	9·33	31·96
1937-38	43·03	10·81	32·22
1938-39	40·62	13·58	27·04
1939-40	36·98	12·51	24·47

The small percentage of expenditure out of the available amount may be due to the fact that the income of the individual Panchayet is too poor to enable any tangible work being done. The whole period may, therefore, be characterised as one of conserving and building the resources so as to be able to carry out works of permanent utility after adequate funds are pooled. In a relatively few villages, however, very good results have been achieved by the village panchayets, thanks to the keen and benevolent interest of the state. As Mr. P. G. D'Souza (Revenue Commissioner in 1928) observed 'The success of the scheme will be in direct proportion to the interest and earnest enthusiasm aroused in the people.'

The Government started a scheme of model villages and there are about 262 villages to-day. These villages serve as centres radiating light which engenders inspiration among the neighbouring Panchayets to emulate these centres.

Further, not only have the Government placed a definite plan of rural improvement work before the Village Panchayets but they have afforded various facilities and concessions which must go a long way to stimulate initiative and activity in the villagers themselves. The periodical presentation of medals and certificates to Panchayets showing good work and to enthusiastic Village Panchayet workers has tended to produce a spirit of healthy rivalry among the Village Panchayets. The device adopted by the Government since 1934 of classifying the Village Panchayets into good, bad and indifferent according to the interest evinced by them in the administration and publishing it has also tended to produce similar results apart from being of help to the Government in watching the progress or otherwise of the Panchayet administration.

All these sets of measures taken in earnest endeavour by the Government together with the dynamic force of modern times cannot fail to bring forth in great numbers men of integrity, initiative, intelligence, insight and industry—persons 'More skilled to raise the wretched than to rise.' It might be hoped that the conserved financial resources will find judicious application to useful items of work. This will make it demonstrably clear to the villagers that the tax they have paid has been used well. Such an impression in them will make the task of collection easier. It also creates the right spirit of enthusiasm for co-operating with the Panchayet in its works.

12. *Scope for Increasing Tax Revenue.*

The question of judicious expenditure of available funds is bound up with the problem of increasing the income of the Panchayets. As for increasing the tax revenue there is provision within the present division of the taxes as between the Central Government and local panchayets, for, only few Panchayets have levied taxes which they may levy at their discretion as is shown in the following table:—

1927-28	1936-37	1937-38	1938-39	1939-40
430	61	51	66	71

But the possibility of increasing the tax revenue is bound up with improvement in the general economic position of the villagers and with the standardisation of the land revenue at a lower rate so as to leave more scope for local taxation as suggested by the Indian Taxation Inquiry Committee.

There has been some pressure from the members of the Representative Assembly for the transfer of a portion of the tax under Land Revenue—Miscellaneous—such as Amarayi, Hulbanni, Fish contract, Rent on salt pans, sale proceeds of dead trees, which amounts to nearly 2 lakhs. The Taxation Inquiry Committee presided over by Mr. N. S. Subba Rao suggested that as regards the Amarayi and Hulbanni a transfer may be made in one taluk in every district and the yield watched for a year or two to find out if the yield would increase. They observed, 'If there is no appreciable increase it would seem hardly worthwhile violating an important principle of public finance that the revenues of the Central Government should not be allowed to be intercepted by local bodies.' This experiment was not made. The Government have considered the transference of these sources to the Panchayets unnecessary at present in view of the larger grants they are making for rural development works. Recently they have abolished Hulbanni altogether. The Amarayi is sold to the Village Panchayets—if they choose to purchase—for an amount equal to the average realisation of the preceeding five years, so that anything in excess is part of the Village Panchayet revenue. The realisation of these sources may, however, be assigned as local. It would bring the Panchayets an additional annual income of nearly $1\frac{1}{2}$ lakhs of rupees.

The Amarayi is an elastic source of income. If this is made over to the Panchayets they might take keen interest and make necessary efforts to develop the same. The Government have been giving detailed instructions to the Panchayets for planting fruit-bearing and useful trees on both sides of village roads. An offer of free grant of land to the extent of 6 acres dry and 2 acres wet for development of fruit culture is made to deserving Panchayets.

For the development of mulberry 'topes' also great facilities are offered. The avenue and garden trees and

the mulberry 'topes' when systematically developed and properly controlled, may bring an income which may not be inconsiderable.

13. *Grants-in-aid.*

As the division of duties between the state and local Government is largely independent of the division of taxes, a transfer from the revenues of the state is necessary. It is not intended to discuss these in detail. It can, however, be noted that the Government grants are necessarily to be an important source of any considerable increase in the income of the Panchayets, as the proportion of the Village Panchayet taxes to the land revenue is roughly 1:12.

14. *Loans.*

Another important way of increasing the revenue of the Panchayets is by borrowing. There is statutory provision for enabling the Panchayets to take loans from the Government or from any other agency recognised by the Government for undertaking works of permanent utility. Detailed rules have been framed also. But loans have not formed any considerable part of the Panchayet revenue so far. The fact that there has been, in all the years, large balances after meeting the recurring expenses must assure us that there may not be difficulty in repayment if a reasonable amount of loan is made by any agency. Indeed, carrying out works of public utility on a large scale financed this way will improve the general economic position of the villagers and holds out prospects of increased tax revenue for the Panchayets.

The huge balances under the Village Panchayet Fund may be employed for making advances to deserving Panchayets. These balances amounting to between Rs. 25—30 lakhs are not earning any interest since 1935 and represent idle money in the Treasury. The Government have recently provided that after keeping 20% of the Fund for current expenses, the rest might be invested in gilt-edged securities if the Panchayet so desires. The balance at the credit of a large number of individual Panchayets may not be large enough to be employed this way. The *average* balance at

the credit of each Panchayet is about Rs. 200. Further, the Panchayets chairmen may lack that knowledge about investment in securities necessary to inspire initiative in them on the matter.

In these circumstances the following alternative scheme of making use of the balances might deserve consideration. Advances, at a rate of interest not less than 5% might be made to deserving Panchayets. Interest at not less than 3% on the amount at the credit of each Panchayet kept at the Treasury might be given. The difference in the two rates of interest must provide for the increased cost of administration. In this way, what may be called the Co-operative savings of the Panchayets can be immediately directed to the use of those villages which are best prepared to use them.

15. *Weekly Communal Labour.*

The system of weekly communal labour has been popular. The following table gives the number of Panchayets in which the system is in vogue and also the estimated value of the labour so procured:

Year	1934-35	1936-37	1938-39	1939-40
Number of Village Panchayets ...	2,686	1,950	1,803	2,561
Estimated value of labour ...	1,46,935	1,89,174	1,22,859	1,52,622

With the growth of enthusiasm among the entire body of villagers for participation in the Panchayet work, this system should prove to be of incalculable economic gain and social significance.

SYNOPSIS

Introduction—1927, a landmark, 1902 and 1918. Functions of Village Panchayas,—Comprehensive;—The Sources of Revenue, —Taxes, fines, grants and contributions and loans. Financial Inadequacy. Disparity between the Annual demand and annual collection of taxes. Arrears accruing in each of the several years, —Explanation. Policy of cautious remissions. Commutation of

arrears into labour service. Agency for collection of Panchayet taxes,—The Revenue Department. Judicious Expenditure,—The Government's lead; facilities and concessions given by the Government. Scope for increasing tax revenue,—the transfer of Amarayi, Hulbanni, Fish contract, Rent on salt pans, sale proceeds of dead trees; Development of avenue and Fruit trees and Mulberry 'topes.' Grants and assignments out of Provincial Rvenue. Loans,—statutory provisions. Unspent balances at credit of the Panchayets; —investment in securities; capital for making advances. Weekly communal labour.

NOTICE

1. The twentyfifth annual conference of the Association will be held at Bombay under the auspices of the Bombay University between the 31st December, 1941 and the 3rd January, 1942.

2. At the last General Body meeting held at Mysore the question of suitably modifying the constitution and the bye-laws of the Association was considered and a committee was appointed to report on the matter. The members of the Committee are:

(1) Prof. V. G. Kale.
(2) Prof. J. P. Niyogi.
(3) Dr. Gadgil (*Convener*).

Members are requested to send suggestions, if any, regarding the changes to be introduced in the constitution to Prof. D. R. Gadgil, Principal, Gokhale Institute of Politics and Economics, Poona.

3. The Current Topic to be discussed at our next Conference in Bombay is "Economic Reconstruction in India after the War."

4. We have printed in this Volume the names and addresses of the members of this Association.

B. V. NARAYANASWAMI,
Honorary Secretary.

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MARSHALL'S CONTRIBUTION TO INDIAN ECONOMICS*

BY

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Alfred Marshall, celebrated political economist and teacher of economics, interested himself in Indian affairs from a very early period of his life. The contact which he maintained with administrators, many of whom received lessons in economics from him, helped Marshall to retain his interest in Indian affairs until the very last. Moreover, the Commissions which were set up by the Government to enquire into Indian monetary and currency questions turned to Marshall for light and obtained it. That the light which he shed on so many economic questions should not have penetrated the dark chambers of officialdom and also our academic institutions is a pity. For this Marshall himself is partly to blame. The exposition is confusing and is not logical, with the result that many who attempted to obtain wisdom from the *Official Papers* have turned away disappointed. After more than three years' study of Marshall's evidence, it is obvious to the present writer that such defects as are to be found in Marshall are of a superficial

* This paper was submitted at the Twenty-fifth Conference of the Indian Economic Association.

character and that much can be had from the *Official Papers.* Whether it be of the theory of money and the rate of interest or foreign exchanges and Indian exchange in particular or general reflections on economic policy, Marshall shows himself to be a supreme craftsman. Almost all his pronouncements on economic affairs have a very modern ring about them and are intimately related to recent researches in the theory of money, foreign exchanges and capital development of India. It is therefore appropriate that his views should be made available to economists and administrators.

Before one examines Marshall's evidence in detail, one must refer to the very clear analysis which he made of the impact of money on an undeveloped economy. He was the only witness who had understood the implications of such a transformation and who attempted to supply a theoretical explanation. India was on a silver standard up to 1893. The rapid expansion of the rupee currency between 1870 and 1893 served towards satisfying the liquidity preference and so tended to lower the rupee rates of interest relatively to the rates of profitability of investment in India. Indian investment (investment of rupee capital) therefore was stimulated both along the traditional and the more modern lines. It was left to Marshall, however, to point out a more subtle and long-run benefit of rupee currency expansion. He said that the currency increase speeded up the process of increasing division of labour. That process implies the extension of the "circle of exchange" as well as more efficient production. The increase of currency facilitated the extension of the circle of exchange by providing the extra money needed for transacting the greater volume of exchange. Currency expansion helped to break down local self-sufficiency and to bring India more and more into a "money" or exchange economy, that is to say, to integrate the Indian market. It is clear that but for the currency expansion, the process of extension of the circle of exchange would have been more difficult and painful, *i.e.*, would have involved a price deflation and would have been slower.

How did such currency expansion help capital development? The main effect of the extension of the circle of

exchange was to increase the general investment opportunity in India. Large-scale and small-scale investment is facilitated by the increase in division of labour—a point which Marshall frequently emphasised in his evidence before the Herschell and the Fowler Committee. For, if the village did not produce for sale, it would not have been able to purchase the products of large-scale industry, for example, the cotton mill industry. By making it easier for the village to turn from self-sufficiency to production for an extraneous market, the increase of currency led to a more rapid expansion of the market for large-scale industry. Consequently, investment in that industry was rendered more profitable than it would have been otherwise. The suggestions which Marshall throws out in the evidence on this matter can be utilised for obtaining a deeper grasp of the economical mechanism. Thus the increase in currency would have benefited agricultural production, for agricultural production for the market is facilitated by such increase as well as by investment in irrigation works, and this tended to be more remunerative on that account. The stimulus to production and investment in India which arose from the extension of the circle of exchange in so far as the extension was accelerated by the increase in the supply of money, should be distinguished from ordinary inflationary stimulus which is not accompanied by increased deflation of labour. This was what happened in the case of Germany in the latter stages of inflationary period.

It is not suggested that increased division of labour is promoted only by currency expansion. Of course, capital development—railways, factories, irrigation, tea plantations, etc.,—itself implies and leads to increased division. But the fact of currency expansion in the same direction should not be overlooked on that account. Extra money was required as money economy spread to the mediaeval village and to the jungle. The spread was rendered more rapid by the expansion of the silver currency in the period of 1870—93, thanks to the enormous merits of silver in India. Silver currency of India was a capital good of fundamental importance to the economy of the country and the rapid accumulation of capital in that form is one of the leading

aspects of India's capital development in the 19th century.

We may now proceed to a more detailed analysis of Marshall's views.

Marshall's Theoretical Analysis of the Rupee Exchange.

In his evidence before the Herschell and Fowler Committees on Indian Currency, Alfred Marshall presented a thorough analysis of the fall of the rupee exchange and of its effect on India's foreign trade. The Short Period theory of the rates of exchange between pound sterling and rupee can perhaps best be stated by first describing the component parts of the reciprocal demand of pound sterling for rupees, that is, by describing the so-called "balance of payments".

The offer on the foreign exchange market of rupees is made in respect of goods imported into India and foreign services such as shipping, or to pay interest on debts or repayments of debts, and in respect of governmental expenditure for supplies and remittances of pensions, and in respect of remittances abroad by private individuals residing in India for the purchase of foreign securities, and finally for acquiring foreign currencies for speculative purposes. Against this offer of rupees there are offers of foreign currencies, including pound sterling. These offers are made in payment for exports from India, and for lending to India and the Government of India. The rate of exchange is given by the ratio of the offers of one currency against the offers of the other.

The question is, in what manner the size of the actual offers of the currencies exchanges one against the other determined. How does Marshall attempt to answer this question?

In the evidence before the Herschell and Fowler Committees, Marshall takes for granted the conception of the Indian balance of payments and its constitution; his description of the balance is scattered in the answer, as are his explanations of how the rupee-sterling rate of exchange is determined. We shall, therefore, assemble his explana-

tions of how the rate of exchange is determined in the short run for our consideration.

The determination of the rate of exchange can be explained by the action of four classes of factors:

1. the forces on the side of goods, *i.e.*, supply and demand for internationally traded goods;

the factors on the side of lending and borrowing of capital;

3. the condition of transfer payments such as interest charges paid by the Indian Government and on private account, and remittances by private individuals; and

4. the forces "on the side of money and monetary policy" such as the discovery of silver mines in Mexico, the demonetization of silver in Western Europe and speculative activities in the market for foreign exchange.

Purchasing Power Parity as a Condition of Equilibrium.

Marshall (page 295 of the *Official Papers*) in reply to a question states that the rate of exchange is the ratio of sterling prices to rupee prices at the ports. It is profitable, let us suppose, for an English importer of jute to pay the sterling price for a rupee, so long as the jute which he can obtain for a rupee will sell *net* in London for this price. "By net is meant after paying all the expenses, *i.e.*, including insurance, interest for the time the capital is locked up in transit, and remuneration for himself." This is put forward as a necessary but not as sufficient condition of equilibrium..

Elsewhere he writes, "And when trade is in equilibrium the gold price of the rouble will be fixed just at the ratio which gold prices in England bear to rouble prices in Russia" (page 172 of the *Official Papers*). He explains how the profit motive maintains this condition: "Suppose that it (the exchange) were not at this level (equal to the ratio of prices in Russia and England) but were, say, below it; that is, suppose the number of roubles which exchanged for £1 to be increased above the ratio which the goods that were priced at £1 in England bore to those which were priced

at a rouble in Russia, allowance being made for transport. Then exporters from Russia would sell their goods for gold which when converted into roubles, would give them more than ordinary trade profits; while importers into Russia would lose money if they sold their bills on Russia at the current rate of exchange. The immediate result would be that these importers would refuse to sell at that price, but would prefer to buy Russian goods and bring them back. Exporter's bills in Russia would, therefore, be without any market at the old rate, and their value, or, in other words, the rouble price of the sovereign, would fall almost instantaneously. That is, the gold price of the rouble would rise almost instantaneously until it was equal to the ratio in which gold prices stand to rouble prices in Russia. In the same way it can be proved that the gold price of roubles cannot be in equilibrium above this level and therefore that in equilibrium it must be at this level."

Concerning the influence of the forces from the side of goods on the exchange, Marshall in reply to a question from the commission instances the case of an increased demand for imports on the part of India. This, he suggests, will lead to a fall in the Indian exchange. Conversely, a decreased demand will lead to a rise in the exchange. He is at great pains to show the commissioners that he assumes that other factors which determine the rate of exchange such as lending and borrowing of capital are constant. A quotation from his evidence is useful at this juncture.

"The increased desire for petroleum, diamonds and silver, any or all, would make India bid more eagerly for foreign produce and give more jute etc., in return for it. The way in which this would work out in the exchanges would be as follows: the importers of diamonds, petroleum and silver, would need bills on London, and pay an increased number of rupees for a bill of £1,000, that is to say, in technical terms the exchange would fall. . . . . The rupee would count for less relatively to calico (imports), the sovereign for more, relatively to jute. The all-round merchant might have to sell 320 bales of jute instead of 300 in London, in order to get 100 bales of calico but he would get his own gain because he would sell his calico at home for the price

of more jute than before. And if in this state of the trade he stopped from importing, he would require to obtain a larger number of rupees than before for a bill of £1,000. Thus the increased demand of India for foreign goods would lower the exchanges and this increased demand would keep them low *so long as there was no other change in the situation except that is especially so long as there was no change in the supply of rupees or gold relatively to the work they had to do, and this supposition implies that the mints are not open to silver.*"

Marshall then traces the effect of a fall in exchange on exports. He rightly points out that the effect on exports will be different according to whether the fall in exchange is a result or a cause. The time sequence of events is important.

For instance, as he points out in an earlier section of the evidence, "And it appears to me very strange that general attention has not yet been directed to a fact that a fall in the Indian exchanges may be so caused as to have exactly the opposite effects to those that are commonly attributed to it, and give a bounty to the Indian importer, and impose a penalty on the Indian exporter. Let us then take one by one the causes which may produce a fall in the rate of the Indian exchanges. We shall find that the effect of that fall depends on the nature of those causes, and that it acts sometimes in one direction, and sometimes in the other. Firstly, let the cause be a superfluity of silver in Europe, then there will be a fall in the purchasing power of silver there; the purchasing power of gold so far being unchanged the result will be a fall of the Indian exchange. The gold price of a silver bill on India falls; the sending of goods other than silver to India is *pro tanto* unprofitable because prices have not risen there. For the same reason the sending of goods from India is profitable; consequently silver goes to India. How long silver keeps on flowing to India depends chiefly on what is done with it when it gets there. In so far as it goes into the hoards it will not affect prices; in so far as it does not go into hoards it will gradually raise prices. It will gradually raise the exchanges and the benefit to the Indian exporter will be so far

over. . . . But secondly let us take the opposite cause of a fall in the Indian exchanges. If the silver mines had been discovered in India instead of in America and silver prices had risen in India before they rose in Europe, then the exact opposite results would have arisen. There would then have been a tendency for silver to flow from India to England in lieu of commodities, and there would then have been a tax on the Indian exporter equal to the difference between silver prices in India and in Europe. I contend, therefore, that the bounty which is caused one way or the other by a fall in Indian exchanges depends merely on the question whether the change in the price of silver takes place first in Europe or first in India. . . ." Eventually "any stimulus to exports relatively to imports which is not compensated by lending to foreign countries, or returning loans, must necessarily be followed and compensated by an exactly equal falling off of exports relatively to imports."

This conclusion is based on the implicit assumption that the demands for exports and imports are fairly elastic. Then is short-period equilibrium attained.

For on these assumptions an autonomous fall in exchange stimulates exports and increases sterling receipts, while imports and rupee expenditure on them diminish. At the second stage, therefore, the offers of sterling against rupees increases and the exchange goes up to something like its original level, causing exports and imports also to revert to the original level. This is the automatic short-run equilibrating process which Marshall has in mind.

As we have already indicated, this theory assumes an elastic demand for goods in both countries, and on this basis, Marshall concludes that an "export bounty" due to a fall in exchange is only temporary since the expansion of exportation causes the exchange to go up again, so that the export bounty is quickly wiped out. It is this assumption that causes Marshall to think that the effect of a depreciated exchange on exports is unimportant. We shall, however, defer further criticism of this theory to a later section of this exposition.

We may conclude this summary of Marshall's views on the exchange and its effects by considering two important matters on which the commissioners sought information:

viz., the effect of a falling exchange on (*a*) exports in the short run and (*b*) exports in the long run.

Criticism of Marshall's Short-run Purchasing Power-Parity Theory.

Marshall's definition of purchasing power parity is open to a variety of interpretations. As has been pointed out in an earlier section, he says that exchange is in equilibrium if it is at par. And it is at par when "it is worth the while of an English importer of, say, jute, to pay this price for a rupee, if the jute that he can get with a rupee will sell *net* in London for this price. By net is meant after paying all the expenses, *i.e.*, including insurance, interest for the time the capital is locked up in transit, and remuneration for himself. Thus Indian Exchange is the ratio which the sterling price of jute, after allowing for freight etc., bears to the Indian price." On this assumption, every exchange is "at par," because sterling price of any commodity must be equated to the rupee price, plus rate of exchange, plus various expenses (including actual profit).

The definition of the equilibrium exchange is, therefore, tautologous. The *condition* is not a *condition* of equilibrium, because on the tautologous definition every actual rate of exchange is in equilibrium and the exchange can never be below or above the parity rate.

But it is apparent that Marshall does not really imply the above tautologous definition of equilibrium. We must, therefore, read another meaning into this definition, to make better sense out of it.

What Marshall really means, it would appear by parity rate of exchange, is the ratio of sterling to rupee prices of a traded commodity, allowance being made not for the actual cost of transport, but some normal cost of transport, including normal profits, and he speaks of exchange being undervalued or over-valued according as profits are abnormal or subnormal. But unfortunately on no occasion does Marshall bethink himself to make it clear that he implies "normal" profits in the definition of parity rate of exchange, neither does he seek to define normal profits.

We must, therefore, resort to conjecture to discover what interpretation should be put on this term. For example, by normal profitability of exportation he may mean a money rate of profit in export trades equal to the rate prevailing in other trades. Or he may imply some moving average of profits in exports over some years, and the deviations of the profits from the moving average he may think of as indicating either super-normal or sub-normal. Actually he appears in different passages to use both these concepts of normality.

Thus he says a fall in exchange may increase profits in the export trade (he calls it a bounty) as compared with the preceding level of profits. In other passages he says exporters do not receive a special bounty when their profits increase, if at the same time the profits of the importers and the internal industries increase to a similar extent, in consequence of an internal currency inflation (see p. 301).

Next can be considered the question of the extent to which Marshall appears to use a concept of *absolute undervaluation* and the extent to which he gives the opposite definition of relative undervaluation.

Absolute undervaluation is implied in passages where he contrasts the actual exchange with what it would have been if there was complete equilibrium in that year. In this instance, *undervaluation* or *overvaluation* is absolute in the sense that no comparison is involved between different dates.

The other concept of undervaluation, or the concept of deviation from parity, involves comparison of the actual rate of exchange with its level in the preceding years and the concept is therefore relative. But on a severer scrutiny, it must be confessed, even the absolute definition of the non-parity exchange proves to be really a relative concept if interpreted realistically. For in the real world there is no strict equality, for the rates of profit in different classes of industry to become equal. Nor need there be a tendency to a constant difference in the rate of profit.

Thus the Indian export trade may have been *more risky* than the business of importing goods to India, because for instance Indian exported food stuffs were subject to exceedingly severe climatic fluctuations. To compensate for the

higher *risk* for export, the *rate* of profit in the two industries would not tend to equality at all. Secondly, there is no reason to suppose that the *gap* would tend to be constant over-time. In fact the excess of profit in exportation over rate of profit in the importing concerns probably had a downward trend because the risks of famine fluctuations were diminished with the improvement in transport conditions and famine relief.

The question then arises how a *normal* gap between the two rates is to be found. The only sense in which it can be defined is in the statistical sense—by observing the statistical trend of the gap. The exchange would then be said to be at par if the *actual gap* of profits in a given year was equal to the "normal gap" as indicated by the trend. But it is obvious that the definition of parity then becomes relative, because it is now impossible to say whether the exchange in a given year is at par or not without some reference to other years. Therefore, to make realistic sense from Marshallian propositions, the concept of undervaluation must necessarily be relative. It is, to say the least, unfortunate, that Marshall should have given such a strong superficial impression of implying the concept of absolute undervaluation or over-valuation. But it is nothing short of deplorable that certain subsequent writers should be equally vague and should again presume to use absolute (unstatistical) notions of equilibrium and of undervaluation, thus giving the air of mysticism to the discussion of international trade.

Marshall's formulation of equilibrium in the short-period is, in fact, a drastic simplification. He says "any stimulus to exports relatively to imports which is not compensated by lending to foreign countries, or returning loans, must necessarily be followed and compensated by an exactly equal falling off of exports relatively to imports."

As will be remembered the type of economic adjustment which Marshall has in mind in this connection is as follows: He assumes that the demand for Indian exports in terms of sterling is elastic and that the demand for imports to India in terms of rupees is also elastic. Therefore, a fall in the rupee exchange induces a subsequent rise in the exchange to its original level. The fall in exchange stimulates exports

and discourages imports, causing the exchange to rise, and a higher exchange in turn discourages exports and encourages imports, so that in the end exports, imports and the rate of exchange are approximately at their old level. The old equilibrium is restored. From our statistical investigation, it appears that the demand for Indian exports in *terms of rupees* is not only elastic but also upward sloping. As the exchange falls, the index of rupee export prices is usually found to rise, and the volume of exports taken increases, so that the demand curve for rupees must be upward sloping. As to the elasticity of demand for exports in terms of sterling, the question cannot be decided without detailed statistical investigation. The material examined seems to suggest that the demand in terms of sterling is inelastic. But further investigation may disprove this impression. Similarly the question cannot be decided as to whether the demand for imports in terms of rupees is elastic, without special statistical investigation.

Even granting Marshall's apparent assumption of elastic demands for imports and exports, his theory of adjustment can be criticised since it ignores repercussions on the national incomes. A fall in the exchange, while increasing the incomes of those employed in the export industry, diminishes the incomes of those in the import industry. Marshall may have thought on balance that the national income remained constant, and hence changes in national income need not be discussed.

A short argument will show that this cannot be the case. The Indian national income cannot remain constant. India imports mostly finished products and most of the employment involved in the production of these is situated abroad. But most of the employment in Indian exporting industries is situated in India. Hence a fall in the exchange leads to an increased income in export industries, and a very small reduction of employment *in the import* industries. Since the world's income outside India is large, the initial reduction in it due to the initial reduction in imports to India is negligible and hence the increase in exports is not prevented. The total national income increases, even neglecting the *multiplier effect*, and the income elasticity demand for

imports is no doubt positive. The demand for imported consumption goods, and even investment goods increases, and hence total imports increase. In fact, concurrent increase in imports and *exports* is observed although the situation was complicated by the import of capital funds. Therefore a new situation is reached, which need have no resemblance to the initial position of so-called equilibrium. What then becomes of Marshall's description of the equilibrating process?

In his short-run analysis of the exchange, Marshall suggests that the effect of a fall in exchange on the exports is negligible. He argues that the stimulus is rapidly counteracted by the equilibrating process. We have shown that the process is not so rapid as he thought. It is not surprising, therefore, that the evidence of the correlation (Chart II), goes against the view of Marshall. He was quite right in implying that the continual import of silver tended to increase Indian exports so as to pay for the silver, and that such increase of exports was necessarily not very important quantitatively. But silver was not an ordinary import-good, it was also money and it was this fact which led to the stimulus of export to a far greater amount than was necessary to pay for the silver. The rupee depreciation increased. Hence India's demand for imports was increased and this led to an additional increase in exports. The rupee depreciation thus led to a cumulative increase of India's foreign trade and caused a fuller utilisation of India's resources. Exchange depreciation led to the reduction of "disguised unemployment."

Criticism of Marshall's Long-run Theory of the Rate of Exchange.

One of the beliefs which Marshall held about the rate of exchange in the long run is that in the long run, foreign trade takes place exactly as in a barter economy where money is a mere counter.

Thus on p. 65 of the *Official Papers* we have the following answer to a question posed by Lord Herschell. Lord Herschell (q. 9735): ". . . . It has been suggested that the

fall of the gold price of silver gives a bounty to exporters of produce from silver-using countries. What have you to say upon this point?"

Marshall:

"My own view is that *a priori* it is impossible. I will first endeavour to prove this by general reasoning though I am aware that such a method of argument is not convincing to all minds. I submit that if Spain is sending oranges to England in exchange for cutlery, the question whether more oranges will go to England—whether the English market will be flooded with oranges—depends solely upon the relative values of oranges and cutlery in England and in Spain. That doctrine was established by Ricardo and I do not know that any person has in the least shaken it; in fact I do not myself believe that it has ever been seriously attacked by anyone who has taken the trouble to understand it. If cutlery should rise relatively to oranges in Spain, there will be a larger trade done, or if oranges should rise relatively to cutlery in England, there would be larger trade done. I do not think that any change in the counters which are used will have any effect whatsoever upon the general course of trade."

Now this view is hardly accurate. To take our example, a falling exchange can have long-run consequences. Export industries are placed in a more favourable situation than import industries and internal industries (those subject to no competition from abroad). Hence investors finding that profits are much higher in these industries, invest in them and when a survey is made after a period it will be found that productive capacity has increased. Another reason for *productive* capacity being increased is that markets are captured. It is interesting to note that our charts show a correlation between y_1 (undervaluation) and trend of *exports*. The economic biography of Japan is an instance in point: the depreciation of yen over a long period was one of the main factors which led to the capture of many new markets. This is one of the advantages which has to be taken account of by political economists who strive to strike a balance sheet regarding the relative merits of exchange depreciation policy.

In the period which the Commissions chose for investigation, the Indian Rupee also depreciated. A short *resumé* of the effects of such depreciation on the development of Indian economy is not out of place. This will help us to test the correctness of Marshall's *a priori* proposition regarding undervaluation of the Indian currency.

Exchange Depreciation and Exports.

In the sixties of the last century the discovery of certain silver mines in California and some of the Southern States of the United States of America led to a lowering in the exchange value of silver in relation to other commodities. Countries on the silver standard like India found their currencies commanded fewer units of gold standard currency in exchange. It is observed that in the sixties there was a small fall in the rate of exchange of currencies on a silver standard. In the years 1860—70 India's exchange slightly depreciated. Closely following on the heels of the discovery of mines came the news that Germany and a few other countries had decided to abandon the silver standard and to adopt a gold standard. The consequent expectation of a further fall in the value of silver tended to lower the rupee exchange all the more and when the German Government demonetized silver in 1871, the exchange declined still further.

There is no unique definition of an undervalued currency. For our purpose we have to take note of three items. We know that the exporters in India are concerned with the rupee prices which they have to pay for their exports, the prices in terms of sterling which they will receive for their exports in Great Britain, and lastly the rate of exchange at which they can convert their sterling receipts into rupees. The undervaluation of the rupee from this standpoint must take account of these three items. We define our index of undervaluation as the ratio between the index of the wholesale prices in the United Kingdom,[1] and

* The index of wholesale price compiled by Sauerbeck and the index of export prices by Robertson are to be found in Mr. Meek's Indices of Prices from 1860-1931.

the index of export prices in India, divided by the index of the rate of exchanges, *i.e.*

$$y = \frac{\text{index of wholesale prices in U. K.}}{\text{index of export prices in India}} \times \frac{\quad}{\text{index of rate of exchange}}$$

1873 is taken as the base year of the three indices. The index y shows how the ratio of prices in the United Kingdom and India (export prices) changes in relation to the exchange index. Suppose that in any year the price ratio

$$\frac{\text{index of wholesale prices in United Kingdom}}{\text{index of export prices in India}}$$

increases, while the index of the rate of exchange remains the same as in the base year 1873, then exporters obtain more sterling per rupee worth in their exports than in the base year. More exports are shipped to Britain. How does the idea of undervaluation enter into this scheme? We know that the rupee has several markets; our interest is, however, confined to two markets—the *foreign exchange* market where rupees are directly exchanged for sterling, and the *export trade* market where rupees are indirectly exchanged for sterling by exporting Indian goods. In the example given above, where the price ratio of Indian to British prices increases but the rupee rate of exchange remains the same as in a base year, it will be noticed that in the indirect market, the £ sterling is cheaper than in the direct market as compared with the base year. Therefore the rupee is cheaper in the foreign exchange market than in the "indirect" market, that is, it is in the exchange market that the rupee is undervalued. Conversely, when the index of exchange raises more than the ratio of the price indices, the rupee appreciates on the direct market as compared with the indirect market, and hence is overvalued. More examples can be given: these would, however, only serve the purpose of elaboration.

We call the ratio of the indices of gold to silver prices in 1873 the "parity rate of exchange." We have made both the parity rate and the actual exchange index in this year

equal to unity so that the index of the actual exchange is *at par* with the parity rate:

$$\frac{\text{Index of wholesale prices}}{\text{Index of export prices}} = \frac{100}{100} = 1$$

Index of rate of exchange = 1 in the base year.

y it will be noticed has the advantage of being a pure number and gives us the index of profitability in terms of rupees per rupee-worth of exports. The index y, it must be understood, expresses only the relative undervaluation of a currency. There is no such thing as an absolute undervaluation. By absolute undervaluation of a currency is meant, presumably, undervaluation as compared with an equilibrium situation, whatever the "equilibrium" may mean. Professor Cassel and some other professors are careful not to give a clear definition of what they mean by equilibrium in this connection.

The rupee undervaluation—series y is given on Chart I. On theoretical grounds we should expect positive deviations $\triangle$ from the trend of the value of exports on Chart I to be associated with high values of currency—undervaluation y, and negative $\triangle$ with small values of y. We expect exports to be stimulated by profitability of exporting.

The theory is conveniently tested on Chart II. Up to 1878 there were serious disturbances due to the stimulus of the American Civil War to Indian cotton exports and a subsequent reaction, and also due to famines. The famine-years are indicated on Chart III by high peak food prices. But the period 1879—95 was relatively undisturbed by such causes—as is seen from Chart III. Accordingly, on Chart II we correlate export deviations $\triangle$ with the accompanying values of y only for the period 1879 to 1895. A straight line is fitted by eye to the scatter of points on Chart II and quite a strong positive correlation is revealed. Thus the theoretical expectation is easily seen to be confirmed by the statistical facts. The large negative deviation for the your 1885 (marked "85") is due to the cyclical depression in England that year. The percentage employment x in England is shown by the x series in Chart I. Some of the

scatter about the line fitted on Chart II is due to this cyclical employment variation. But since the x series is little correlated with the y series, disturbance from the trade cycle cannot seriously affect the slope of the line on Chart II. This slope, therefore, roughly measures the stimulus of rupee undervaluation to India's Exports in the period 1878 to 95. And it is easy to see that the stimulus was quite substantial, although it is small relatively to the variations caused by trend-forces. On Chart I, the fluctuations about trend are fairly small relatively to the magnitude of the trend and its upward rise. But the correlation Chart II shows only the short-period effect of rupee-undervaluation. The long-run effect is probably considerable. But for rupee depreciation, the downward trend in the undervaluation y would have been more pronounced. The variation in y was caused by variations in the parity ratio (shown in row iv of table of variables) and also by fluctuations in the rate of exchange. The short-period export stimulus shown by the correlation Chart II is quite substantial, although it is small as compared to the magnitude and the rise of the trend. On Chart I the fluctuations of the value of exports about trend are relatively small. The lon-run effect, *i.e.*, the effect on the trend of exports due to exchange depreciation was probably considerable. But for rupee depreciation, the downward trend in the undervaluation y would have been more pronounced. As it is, the slight downward trend is due to the secular fall in the cost of transport caused by the improvement in communications. It may be noted that the cost of transport is not excluded from the index of rupee-undervaluation. The index y really measures the gross profit margin,[2] that was obtained by shipping a rupee worth of goods from India to England.

* Since transport costs are sticky relatively to the gross profit, the gross profit index y also serves as an index of net profitability of exports, excluding costs of transport. It is often wrongly argued by equilibristic economists that such net profitability is always equal to zero. They argue that any departure from zero is immediately wiped out by an adjustment of exports and the balance of trade. They are wrong because the adjustment is not instantaneous. The greater the departure from zero-net profitability the greater is the adjustment of exports that become necessary.

By tending to keep up the degree of undervaluation for a long period, the fall of the rupee-exchange in 1870—1894 must have given a long-run stimulus to the growth of India's export industries. It is interesting that such was the view taken by the leaders of these industries, *viz.*, tea, cotton and jute industries.

To proceed.

Together with his belief in a barter economy, Marshall appears to have held quite an opposite kind of view, namely, that in point of principle, money is not neutral but is an active factor both in the short and the long run. This view comes into prominence when he considers the relative advantages of certain monetary policies. It comes out specially in his advocacy of the regime of falling prices. He suggests that the policy of falling prices would raise the trend of real national income, as compared with a policy of rising prices. The argument is set out in detail in the *Official Papers* and has been subjected to a critical examination by me in a recent article contributed to the *Indian Journal of Economics.*

Similarly he shows that the improvements in a banking system brought many benefits including the amelioration of banking crises and the consequent paralysis of trade.

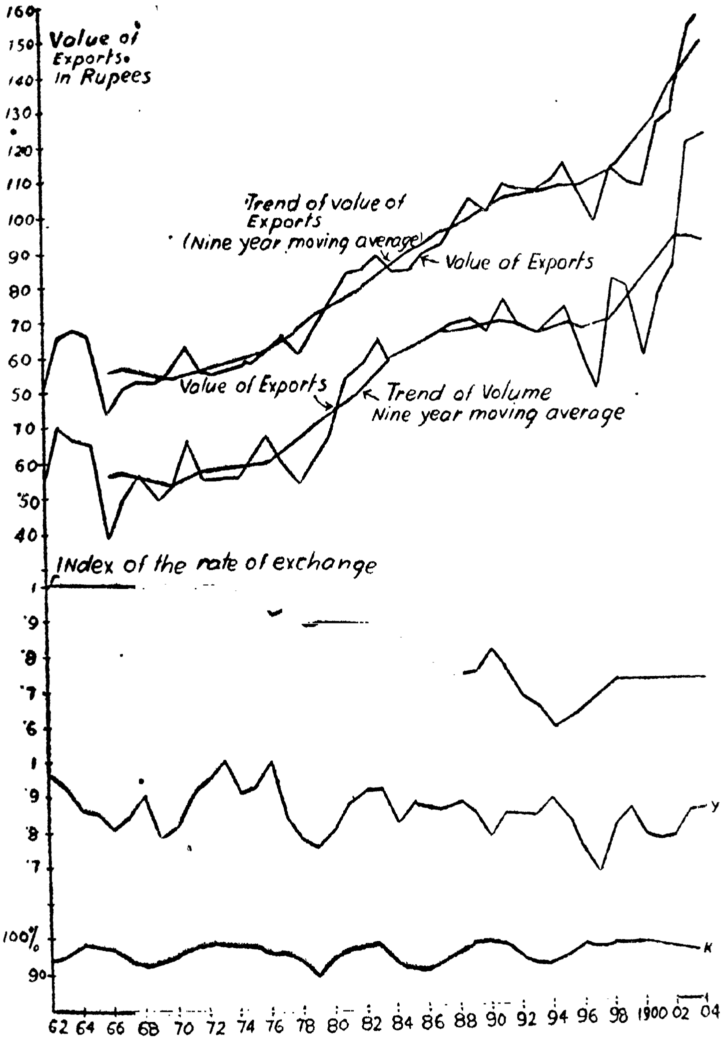
Thus we discover on investigation that Marshall, in common with many other economists evinces a certain duality of outlook. On one side he appears to subscribe wholeheartedly to the long-run Ricardian theory (see Marshall's direct reference to Ricardo). But on other occasions, his viewpoint is quite Keynsian in character, although it must of course be appreciated that there is nothing in the short-run Ricardian theory that is incompatible with the Keynsian doctrines.

Marshall's reflections on the theory of money and interest have been dealt with elsewhere at considerable length so that it might seem inappropriate to cover the same ground here. Those who are interested in finding out Marshall's views and the criticisms made are referred to an article by the present writer in the *Indian Journal of Economics.* It is there shown that Marshall's theories and Mr. Keynes'

theories lead to the same results but that from the viewpoint of profundity of analysis, Mr. Keynes' are superior to Marshall's. To quote from that article:

"So, there seems to be substantial agreement between Keynes and Marshall. The difference lies in the method rather than in the results. Both methods are legitimate because they differ only in the choice of variable and one variable does as other if the two are correlated. The chief objection which Mr. Keynes could advance against the Marshallian theory of rate of interest would, therefore, be directed not against the Marshallian technique or choice of variable but against the incompleteness of Marshall's theory. The incompleteness of Marshall's monetary theory of interest has made it possible for him to fall back upon the facile conclusions of the doctrine of neutral money and its guarantee of full employment."

The paper which I have presented is incomplete and does not do full justice to Marshall. Many other questions such as railways, irrigation and public debt, commanded the attention of this great economist. We who are students of Indian Economics may do well to peruse those papers, extract the essence of economic wisdom from them and attempt to imbue even our administrators with such wisdom. By doing so, we might help to concentrate attention on realities and not on phantoms. It is in this hope that I have written this paper.


Value of Exports in Rupees
Trend of value of Exports (Nine year moving average)
Value of Exports
Value of Exports
Trend of Volume Nine year moving average
Index of the rate of exchange
160
150
140
130
120
110
100
90
80
70
60
50
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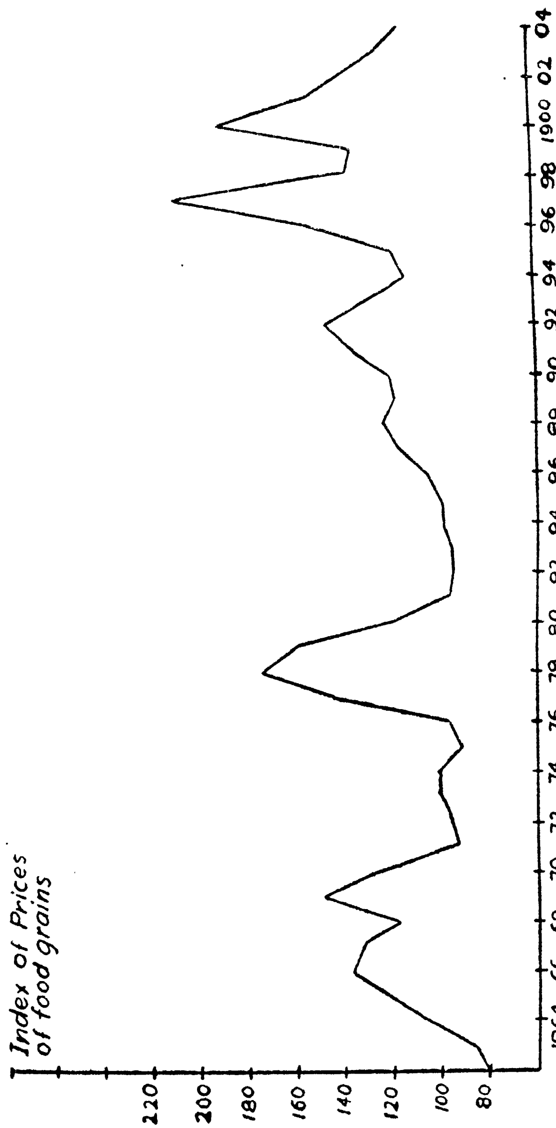
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THE ECONOMIC IDEAS OF IBN KHALDUṆ*

BY

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Since the publication of Ibn Khaldun's biography[1] together with a translation of certain parts of his "Prolegomena" by Sylvester de Sacy,[2] the last hundred and thirty-five years have witnessed an enormous output of literature concerning this writer. But the emphasis, all along, has been on his contribution to Sociology and Philosophy of History. His economic ideas have attracted very little attention of the orientalists. I have attempted, in this paper, to utilise the material lying scattered throughout his work, and to give a systematic account of his economic ideas.

The more and more we study Ibn Khaldun in the light of the contemporary economic thought, we realise how much he is in advance of his times. He gives expression to quite a number of ideas taken up and developed in subsequent periods. He discusses a variety of topics in one single work. The order followed is not the same as is to be found in modern text-books on Economics and the topics do not, by any means, cover the whole ground. But they represent quite a good deal of theoretical and applied problems in Economics. Though his observations are based upon his study of Arab History in particular, he enunciates certain general principles. What distinguishes him, further, from his contemporaries is that his approach to the subject is Secular. He represents neither the theological influences of

* This paper was submitted at the Twenty-fifth Conference of the Indian Economic Association.

1 For details of Ibn Khaldun's life, see Schmidt, *Ibn Khaldun*. His dates are 1332-1406.

2 For an account of critical works on Ibn Khaldun see Enan, *Ibn Khaldun*.

his Muslim predecessors nor the scholasticism of Medieval Europe.

Modern research has thrown much light on the European forerunners of the Marxian theory of history but very few are aware, in this connection, of the importance of Ibn Khaldun. The merit of the writer lies in taking cognisance of both the Platonic and Aristotelian ideas and emphasising the preponderant influence of material conditions on human development. He recognises the Psychological basis of social life[3] and takes into account the fact that man is a social animal. He also emphasises the fact that group life originates in the economic needs of the people.[4] Economic pressure makes us realise that for purposes of satisfaction of day-to-day needs, collective action is more effective than individual effort. He does not stop just with the enunciation of a Psycho-economic theory of society. He discusses, at great length, the influence of material conditions and illustrates his theme with special reference to the share of climate, food and occupation in shaping history. Differences in physical and intellectual qualities can be traced to differences in climate and food.[5] He takes, for his illustration, the nomads and townsfolk and points out the superiority of simple nomadic life over complex urban life. He elaborates the theme and shows that plenty and indigence affect not merely physical features but also mental conditions and religious outlook. "While reading Ibn Khaldun we are reminded of Bodin, Montesquieu and Buckle who have given expression to similar ideas in their works. We cannot say with any amount of certainty that these writers were influenced by Ibn Khaldun. But this much is certain that Ibn Khaldun was a pioneer in this respect."[6]

[3] *Muqaddimai Tarikhi Ibn Khaldun* (being an Urdu translation of the Arabic original by Moulvi Abdur Rahman). Part I, p. 57.

[4] *Ibid.*, Part I. pp. 58-59.

[5] *Ibid.*, Part I, pp. 115-129.

[6] See my paper on "The Social and Political Ideas of Ibn Khaldun" published in *The Indian Journal of Political Science*, Vol. III, No. 2.

National peculiarities can be traced to occupational differences.[7] The institutions of a country are determined, to a large extent, by the mode of subsistance of the people inhabiting it. Agricultural economy and nomadic economy produce different types of society.[8] Morality and religion are effected by occupational differences. The moral frame-work of the trader is a direct result of the nature of his profession.[9] The Beduuins used to hard struggle for existence are more religious than townsfolk given to a life of ease and pleasure.[10]

His economic interpretation of history leads him to a discussion of a number of problems we have to face in the course of earning our livelihood. First he takes up the question of wants and is concerned, in this section, with certain preliminary observations. He remarks that man, throughout his life, is a creature of wants.[11] He proceeds, then, to distinguish between free goods and economic goods. He knows full well that economic goods produced have varying degrees of importance for our life. Hence his distinction between necessaries of life (Baseeth) and luxuries (Murakkab).[12] He draws, in this connection, our attention to the fact that in early stages of economic evolution and in countries economically less advanced, only necessaries are produced. And then comes the stage for the production of luxuries. In this particular discussion, Ibn Khaldun anticipates Prof. Pattens' distinction between "Pain Economy" and "Pleasure Economy." He must have had at the back of his mind, the above distinction when he mentions hunting, cattle breeding, agriculture, industry and trade[13] as the important modes of earning one's livelihood, each, corresponding to a particular stage of economic evolution.

[7] *Muqaddima*. Part III, pp. 59-63.

[8] *Ibid.*, Part I. pp. 179-180.

[9] *Ibid.*, Part III, p. 59.

[10] *Ibid.*, Part I. pp. 125-126.

[11] *Ibid.*, Part III. p. 42.

[12] *Ibid.*, Part III. pp. 63-65.

[13] *Ibid.*, Part III. p. 45.

No doubt he takes into account the various occupations and realises the importance of each from the view point of productivity. But barring the first two occupations which belong, to the early stages of economic development, he recognises the supreme importance of agriculture. Both on ground of its historic priority[14] and its indispensability for life, he considers it the most important. His remarks on agriculture as the most desirable occupation must have been considerably influenced by Greek economic thought. But in his enthusiasm for agriculture, he does not forget one of its major limitations: he draws our attention to the fact that land is subject to decreasing fertility[15] and requires artificial aids.

Ibn Khaldun's remarks on land as a factor of production are rather brief. But he deals, at great length, with labour. He realises the importance of population and advocates large numbers. His ideas, in this matter, do not correspond with Plato who is for a planned population: he bears resemblance to the mercantilists. He emphasises the close connection between increase in numbers and growth of prosperity and illustrates his argument with reference to the conditions prevalent in the advanced stages of an empire.

Population is an important factor in the rise and decline of towns. The writer seeks the origins of towns not merely in social and political but also in economic factors. No doubt the foundation of towns is closely associated with the growth of civilization. But their actual foundation rests on adequate supply and control of labour.[16] While the former gives rise to economic problems the latter presents before us political problems. He emphasises the fact that the firm establishment of political power is antecedent to the control of labour force. But, in this connection, he sounds a note of warning. He condemns vehemently the practice of employing forced labour and considers this as the worst

[14] *Muqaddima*. Part III, p. 70.

[15] *Ibid.*, Part III, p. 25.

[16] *Ibid.*, Part III, p. 1.

tyranny causing the ruin of the people.[17] While expressing such a view, he had in mind the usual practice of employing forced labour in the construction of ancient and medieval towns.

Not merely does he emphasise the economic origin of towns but he holds the view that their growth and decay is associated with industrial evolution. He, further, elucidates his point with the argument that the absence of industries is responsible for the scarcity of towns and that is why we do not come across many towns in the early stages of civilization.[18]

The question of organisation of production is as important as that of numbers. From the point of view of productivity, developed forms of organisation of production yield better results. Plato draws our attention to the simple forms of division of labour. But Ibn Khaldun is concerned with its complex forms. Not merely does he refer to occupational groupings but also discusses, in this connection, the advantages and disadvantages of specialisation. While dexterity is an advantage accruing from specialisation, restricted scope to gain perfection in other industries is its limitation.[19] The latter part of the writer's statement should be viewed in the light of the times in which he lived, for, in the pre-machine age transfer of labour from one industry to another and technical adaptation was a very difficult task. He also draws our attention to another form of specialisation, *viz.*, geographical division of labour. Certain industries are associated with certain towns and, owing to their long continuance in the same area, become firmly established there.[20]

His discussion of the theory of value and allied problems anticipates a good deal of matter which is supposed to belong to a later period. Regarding the question of price determination he does not argue his points fully but holds the view that both in cases of commodities requiring labour

[17] *Muqaddima*. Part II. pp. 204-205.

[18] *Ibid.*. Part III. p. 17

[19] *Ibid.*, Part III. p. 69.

[20] *Ibid.*. Part III, p. 65.

alone and those with preponderant amount of labour, labour is of crucial importance.[21] Ibn Khaldun's labour theory of value is akin to that of the medieval writers with the difference that he does not obscure his discussion by introducing such an abstract notion as that of "just price."

As far as the various influences affecting price are concerned he draws our attention to three factors. First, there is the natural factor. Decreasing fertility of land necessitates the application of artificial aids and raises the cost of production and this in its turn increases price.[22] Then there is the social factor to be reckoned with. Increase in the value of urban land and buildings is a case in point.[23] Finally, Governmental action like levy of taxes on commodities causes increase in price. He points out the influence of numerous urban taxes over the prices of commodities.[24]

Along with his remarks on rise in prices should be considered his strong condemnation of speculative activities. Storage of essential commodities like foodstuffs with the intention of selling at a higher price at some future date is a form of exploitation.[25] To begin with, his condemnation rests on moral grounds. But more important is his emphasis on the economic aspects of cornering.[26] He argues that speculation results in price fluctuations and this brings in its turn depression. The trader, the cultivator and the consumer suffer and, as a way out, he suggests maintenance of steady prices.

In addition to speculation as one of the causes of depression, low purchasing power is another important factor. Increased taxation makes the people abandon their normal economic pursuits with the result that the productivity of the country and the purchasing power of the people is affected.

[21] *Muqaddima*, Part III, p. 11.

[22] *Ibid.*, Part III, p. 25.

[23] *Ibid.*, Part III, p. 28.

[24] *Ibid.*, Part III, p. 25.

[25] *Ibid.*, Part III, p. 60.

[26] *Ibid.*, Part III, p. 62.

The situation becomes still worse when there is political instability. The investment habits of the people receive a setback and there is retardation of economic progress. The purchasing power is affected in yet another way: the state servants are underpaid and are left with very little to spend.[27]

As far as the theory of money is concerned, his discussions are rather brief. Like Aristotle, he realises that the function of money is to serve as the medium of exchange and store of value.[28] He points out, in this connection, that gold and silver are universally used and gives only one reason for it, *viz.*, their durability. Again he realises the importance of gold and silver inasmuch as all economic activity is directed to getting them.[29] Here he anticipates the mercantilists' attitude towards precious metals. The history of coinage is given in a more detailed fashion and the dangers of debased and fraudulent coins are pointed out.[30] He refers to the reforms introduced by Abdul Malik, *viz.*, his establishment of a mint, his control of the quantity and weight of coins and his withdrawal of old coins from circulation. The writer's condemnation of debasement reminds us of his contemporary, Oresme, who, with equal force, refuted the "rights of the Prince to tamper with currency."

His discussion of the economic function of the state is important. He is fully aware of the importance of state in the promotion of the economic life of a country. He, like his contemporaries, lays emphasis on the usual state activities like maintenance of external defence and safeguarding of life and property within the state.[31] He does not stop with this. He extends the scope of state activity when he hints that the state should lead the people in such a way as to secure the welfare of the country. He includes the en-

[27] *Muqaddima*, Part II, pp. 200-201.

[28] *Ibid.*, Part III, p. 43.

[29] *Ibid.*, Part III, p. 43.

[30] *Ibid.*, Part II, pp. 162-166.

[31] *Ibid.*, Part II, p. 127.

couragement of industries in the activities of the State.[32] But he does not give full details to substantiate his claims. One thing is clear, *viz.*, the course of his discussion indicates that his theory is something more than the "Policeman theory of state." It is difficult, in the absence of necessary evidence, to say what particular influence must have shaped this particular attitude of the writer. Certainly the Muslim concept of state and most probably, Aristotle's ethical approach to the theory of state should have influenced him.

Of the economic activities of the state he attaches much importance to Taxation. As a matter of fact, he notes that the twin foundations of state are Army and Finance.[33] He notes with equal force that when state finances collapse, the state also collapses. He views taxation from the point of view of productivity. Light taxation is an incentive to economic effort, for, it encourages cultivation and enriches the exchequer.[34] Both heavy taxation and new taxes like sales tax, Pilgrims' tax etc., are abhorred. Increased taxation discourages economic activities,[36] specially, agriculture. When cultivation of land is abandoned starvation, disease and depopulation follow. Under such a state of affairs, the ability of the people to pay is at a standstill: the very object with which taxes are increased is defeated. The whole discussion of the writer has a reference to the society in which he lived. It is too much to expect him to have taken into account the fact that increased taxation may be in connection with developmental functions. He had in view the practice of the despots increasing taxation for their personal requirements. But apart from the historical value which the above remarks of the writer have, they serve as a counterpart to the modern theory of taxable capacity.

Next, he holds that commercial undertakings do not come under the proper sphere of state activities.[37] He

[32] *Muqaddima*, Part III, p. 67.
[34] *Ibid.*, Part II, p. 189.
[35] *Ibid.*, Part II, p. 192.
[36] *Ibid.*, Part II, pp. 190-191.
[37] *Ibid.*, Part II, p. 193.

deprecates such activities both in the domain of agriculture and industry. He had, especially, in view state profiteering when he wrote this. Concepts like state control of public utility services did not enter his mind. He was familiar only with the practice of medieval despots carrying on trade in their private capacity with the exclusive object of earning profits. He opposes such a thing on two grounds. Firstly; it is a competition between two parties with unequal powers. Secondly, it would check private initiative and free activity of the people and these would affect the productivity of the country.

While evaluating Ibn Khaldun's economic ideas taken as a whole, we should bear in mind the fact that he wrote at a time when the whole of Europe was in the grip of Feudalism and Scholasticism. Ibn Khaldun is an opposite of these two forces. He raises his voice against economic tyranny and political instability. Unlike St. Thomas Aquinas who aimed at a synthesis of Christianity and Aristotelian doctrine, he does not try to evolve an economic system based on the fusion of religion and philosophy. "The great Berber Historian was able to discover in the Middle Ages the principles of social justice and political economy before Considerant, Marx, and Baconine."[38]

SUMMARY

Ibn Khaldun's economic ideas have attracted very little attention of the orientalists. An attempt is made in this paper to give a systematic account of his economic ideas and to view them, specially, in the light of contemporary economic thought.

1. Ibn Khaldun's emphasis is on the preponderant influence of material conditions on human history. He illustrates his theme with special reference to the share of climate, food and occupation in shaping history.

2. His economic interpretation of history leads him to a discussion of a number of problems we have to face in the course of earning our livelihood. He takes up the question of wants and distinguishes

[38] Colocio Quoted in Enan's *Ibn Khaldun*. p. 183.

between (a) Free and economic goods, (b) necessaries of life and luxuries.

3. Of the factors of production, land and labour receive his attention most. (a) He recognises the supreme importance of agriculture. (b) He emphasises the close connection between increase in number and growth of prosperity. In addition, he discusses the economic origin of towns and correlates their growth and decay with industrial evolution. (c) Certain forms of organisation of production are also discussed, *viz.*, specialisation and localisation of industry.

4. (a) He advocates labour theory of value. He also draws our attention to the various influences operating in regard to rise of prices. (b) The economic aspects of (*i*) cornering and (*ii*) depression are examined. (c) His discussion of the theory of money is rather brief. The topics touched are the functions of money, importance of precious metals and the dangers of debasement.

5. His theory of the economic functions of the state deserves our close attention. The two important topics discussed, in this connection, are (a) Taxation in relation to productivity and (b) the commercial undertakings of the state.

Ibn Khaldun wrote at a time when the whole of Europe was in the grip of Feudalism and Scholasticism. But his work represents a great counter-force.

RURAL CREDIT*

BY

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An Introduction to Rural Co-operation.

"I hold myself obliged to give as much Light as is possible, into the Beauties and Excellencies of what I am writing, because it is become the Fashion and Humor most applauded among the first Authors of this Polite and Learned Age, when they would correct the ill Nature of Critical, or inform the Ignorance of Courteous Readers. Besides, there have been several famous Pieces lately published both in Verse and Prose; wherein, if the Writers had not been pleas'd, out of their great Humanity and Affection to the Publick, to give us a nice Detail of the *Sublime*, and the *Admirable* they contain; it is a thousand to one, whether we should ever have discovered one Grain of either . . . . But I here think fit to lay hold on that great and honourable Privilege of being the *Last Writer*; I claim an absolute Authority in Right, as the *freshest Modern*, which gives me a Despotick Power over all Authors before me."

—JONATHAN SWIFT from a *Tale of a Tub.*

Rural co-operation occupies the same place in our economic studies as Cindrella does in the Fairy Tale; it seems rural co-operation intimately concerns the welfare of rustics which proportion of mankind abounds in our country. Yet it has been thought fit by most of us to deal with problems of rural co-operation in the style of a rustic. In our manner of treatment we are not alone; our administrators also keep us company. Thus does inattention to real problems bring

* Paper submitted to the Twenty-fifth Conference of the Indian Economic Association.

about co-operation between the public authority and academicians. Since the rustics are unorganised unlike the manufacturers and protectionists of urban areas, their problems are forgotten or ignored by administrators and economists alike. Further, the economics which we have learnt has a distinctly industrial bias; we take, for instance, interest in problems pertaining to monetary welfare, trade cycle and labour disputes. This occupation with problems detailed above is not to be condemned. But if economists cannot take a more active interest in problems of agriculture as well, their contributions to the political economy of our country will suffer from a lack of balance. And if administrators do not devote attention to these problems, they invite trouble; where the majority of the working population are agriculturists, who are scattered and cannot organise themselves and have inadequate political influence in proportion to their numbers, the intelligent statesman gives them his active support as far as he can. They are the basis of the social structure and if they are not contented, the whole structure is built on sand.

The literature on Co-operation does not, so far as I am aware, do justice to the problem of agricultural credit. It lacks strength because it does not concern itself with the inner springs of activity. Consequently it is in the position of the blind illuminating the blind. So let us start by attempting to understand the problems of the agriculturist, and to understand the problem of the agriculturist one has to undertake an enquiry into the forces that have been at work in agriculture. There are, however, one or two difficulties which stand in the way of a full enquiry being made; our statistics are still in a primitive state. Moreover, the information relating to this problem is scattered in many reports, and the task of assembling it and presenting such information is a great one. It is after considerable hesitation that I have chosen to present a picture of the development of rural credit which while open to certain corrections is, on the whole, a true account of what has been happening in our economy.

The financing of Indian agriculture up to the present day is effected mainly by money-lenders. Towards the end of the 19th century about two-thirds of owner-cultivators were

found to be indebted to the money-lenders. Of this two-thirds, about one-half were inextricably indebted, and one-half indebted but not without hope of repayment. The proportion of seriously indebted among the tenant-cultivators was somewhat lower. The remaining cultivators (tenant or proprietor) appear to have largely financed themselves and sold to the bigger landowners. But even the latter had, recourse to the money-lender for construction of irrigation wells and tanks for example. Under the *takavi* system developed by that great pioneer Strachey, the State made advances even to small cultivators to effect long-term irrigation improvements and to assist the agriculturist after a bad harvest. The system was practised by the former rulers and was continued by the British Government under special legislative provisions, but the money so lent for improvements was negligible, only famine relief being made. It will be hardly worthwhile to discuss the long-term lending by the Government; it is still in the stage of infancy. Even today mortgage banking and co-operative agricultural credit is still in an experimental, if not in infantile stage.

Money-lender Finance.

Money-lenders are frequently condemned on ethical grounds, for exercising various kinds of pressure on their debtors. The immorality involved in the business is of interest not only to the science of ethics, but is of concern also to political economy, for the immorality is a social disutility both in itself and also in its consequences on the mental hygiene and productive or "economic" efficiency of both debtor and creditor. Mental health is no less important for efficiency than physical health—a point which is sometimes overlooked or understated.

Quite apart from the more "psychological" evils of money-lender finance of agriculture there is the question whether the system impairs the motive for efficiency, *e.g.*, whether it depresses investment in equipment and improvements of the land, so that agricultural output is diminished. Also, the system may have operated so that capital was accumulated by the money-lender rather than by the cultivator so that the latter could not improve or increase his holdings,

again with a detrimental effect on output. Lastly, there is the question whether the division or distribution of the output between the cultivator and the money-lender was such that the share of the creditor became so great that the position of the cultivator grew steadily worse. That is to say, the system may have led to such a small "distributive" share of the cultivator that no margin was left for investment on his own, so that he was destined to perpetual poverty and inefficiency, and even to a loss of his assets.

We shall examine the evolution of money-lender finance mainly from the point of view of its results on the efficiency of agricultural operations and the poverty of the cultivator. The difficulty here is that it is hard to assess the effect on efficiency without comparing it with some practical alternative. It is easy, on the other hand, to argue that the system was the only possible one in the circumstances and hence, with all its faults, was the best possible. Again, we have the attitude of the philosophic disciples of Leibnitz who would discourage any attempt to disturb the "pre-established harmony," or after much persuasion would consent only to minor emendations.

The Report (1875) of the Commission appointed to investigate the riots of the peasantry of Deccan, provoked by the pressure of indebtedness to money-lenders, provides some information on the nature and causes of the ryot's indebtedness and the growth of his indebtedness from the beginning of the British rule up to the last quarter of the nineteenth century. The Reports of the famine commissions presented in 1880 and 1901 provide similar information for India as a whole. . Extracts from the three above-mentioned reports on the matter of the ryot's indebtedness are available in a valuable compilation by S. C. Ray (*Agricultural Indebtedness in India*, 1915). Later reports and monographs have filled up some of the details and have thrown light on the debt-questions not only in recent times but also on its nature in the more distant past.

Money-lender finance was used to finance consumption of the ryot during the cycle of agricultural production (to tide over the intervals between harvests) to finance some of the "circulating capital" requirements, and to finance the

payment of the land tax. The ryot also borrowed for occasional (and relatively extravagant) marriage and other festivities. But as the 1875 report states, ". . . . The constantly recurring small items of debt for good and other necessaries, for seed, for bullocks, for the Government assessment, do more to swell the indebtedness of the ryot than an occasional marriage." The need for the finance of consumption and seed, etc., was increased by discontinuity (or high variability) of harvest yield in insecure, non-irrigated tracts.

The 1875 Report pointed out, for instance, that " . . . as there is one year of drought in every three, over much of the region (Deccan) and a good crop also only once in three years, it follows that the income yielded to the *Kunbi* from his land is received *in full* triennially instead of annually." The report adds that in addition only a few crops could be grown on the poorer soils, and that a variety of crops which would have secured more steady earnings, could not, and that taking this factor into account, as well as the "capricious climate," and the great fluctuations in the prices of produce, "it is hardly possible to conceive any conditions more certain to produce indebtedness among the poorer classes than these."

The main function of money-lender finance was therefore to reconcile the fluctuations in receipts of the cultivator (the discontinuity as between harvests, and fluctuations due to climate and price-factors) with the relatively steady normal consumption of the ryot. To stabilize his stream of consumption, the ryot had to part with some of his fluctuating receipts for the benefit of the money-lender, representing interest on the advances and, more rarely, the repayment of debt. The advances were made both in kind (seed, foodstuffs, utensils) and money.

The financing was mainly of a short-term character, the financing of consumption in anticipation of the next harvest was a matter of a few months only. The financing of consumption to even it out between bad and good years was a matter of a few years—about 3 years in the more precarious areas of Deccan, for instance. Financing of bullocks was of a "working capital" sort and was also a matter of a

few years. But the money-lender did not finance really long-term improvements of the land of small owner or tenant-cultivators, such as construction or improvement of irrigation wells and tanks. But larger landowners were able to raise money for such long-term purposes, presumably because they could offer better security, and because large-scale lending was cheaper than a multiplicity of small advances.

The financing of a small cultivator by the money-lender was a mixture of consumption-finance and working capital finance. But the consumption-finance was largely part of the working capital outlay, because the money-lender was advancing the "wages" of the cultivator, which is a commercial concern included as part of the circulating capital (*i.e.*, the wages bill). But there was involved also an element of consumer credit proper—similar to modern instalment buying. This was involved in the occasional lending for ostentatious expenditure (*e.g.*, marriage) and also in lending to prevent starvation in years of drought. But in reality the processes of money-lending finance were less distinct and uniform than is suggested above. Conditions varied from a truly independent peasant-owner or tenant who was only moderately in debt, to a cultivator who, in the disguise of inextricable indebtedness, was really the property or serf of the money-lender. In the latter case it is misleading to speak of "consumers" credit, because the cultivator did not have the status of a consumer in the sense of a free-agent postulated by ordinary economic theory. Thus, the 1901 Famine Commission Report states that ". . . the expropriated owner (who lost his land to the money-lender) has, as a rule, sunk to the condition of a mere serf, tilling the land and making over the produce to the owner. In the good years he has nothing to hope for except a bare subsistence; in bad years . . . . he falls back on public charity." No doubt, the money-lender tried to help his serfs to survive a famine, but he did so in the same way as he tried to save his cattle. To him, serfs and cattle were both instruments of production and the main items of his working-capital assets. It was the money-lender in such a case who was the "entrepreneur" or business-manager of agriculture, and not the cultivator. The serf had neither the

status of a consumer or a producer postulated by the "individualistic" theory of free-economic agents. The accounting of loans and interest in such a case was purely fictitious. It was both a cloak and the instrument by which the serf system was perpetrated and maintained. That introduces the important problem as to what was the meaning of accounting statements of the volume of agricultural debt to the money-lenders and the "rates of interest" charged by them, for India as a whole. For the cultivators finance ranged between two extremes: the virtual serf and the independent peasant-proprietor over whom the money-lender exercised little influence or control. The majority of cultivators fell between these extremes and their position was an ambiguous blend of the two extremes. It is consequently not easy to attach precise meaning to the nominal volume of their indebtedness or to the rates of interest at which they borrowed from the money-lender. To a considerable extent the nominal debt and interest were fictitious and were a means only of ensuring the money-lender's hold over the cultivator. The small cultivator kept no accounts. Some money-lenders also kept no accounts. The *marwari* money-lender kept primitive accounts, where both the advances and interests were in excess of those actually paid. The idea was to intimidate the borrower with the figures and also to strengthen the money-lender's case if he went to law. The real lending consisted of advances in money and kind, and the actual remuneration of the money-lender consisted of his share of the produce of the land. The burden of agricultural indebtedness could only be described by the actual distributive shares of the cultivator and the money-lender in their joint produce. The book advances and the nominal rates of interest throw little light on this matter of distributive shares. Capital and interest accounts indicate the real position only in the case of a really independent cultivator, where the accounts are reasonably free from aberration due to the element of serfdom in Indian agricultural finance.

This aberration was present in the bulk of agricultural lending and consequently, statements of the volume of advances made and the rates of interest charged require quite

different interpretation as compared to the loans and interest in the case of more modern business where the status of lender and borrower is equal, and both parties approximate more nearly to the free-agents postulated by "individualist" economics.

For instance, the rates of interest charged to small cultivators are stated to have ranged from 18 to 48 and 70 per cent per annum and over. These are clearly fictitious rates, for no business could have paid them regularly in full. They were intended merely to drive the cultivator into deeper indebtedness, or if this was already sufficient for the money-lender, to strengthen the money-lender's bargaining power for his share in the total produce of the cultivator. For, if the money-lender stipulated the rates of interest which he actually hoped to recoup, he would have secured a smaller share in the produce, for the ryot would have felt that the money-lender had a smaller claim upon him. Part of the object of the high nominal rates of interest was purely psychological—to make the borrower feel that he owed large sums, to make him feel guilty when he could not pay past interests, and to break down his moral resistance to the encroachments of the money-lender, (a) on the produce of the land, and (b) on the ownership and tenancy right of the land itself—in cases of "alienation."

As mentioned, fictitious accounting strengthened the legal position of the money-lender. But the deeper purpose was to enable the money-lender to speculate on the psychological guilt or inferiority complex of the debt-ridden cultivator. This was facilitated further by the difference in caste.

The *sowkar* and the *marwari* money-lenders were considered as a rule to be of superior caste to the ordinary cultivator.

The high rates of interest are frequently stated to have been due to the high risk premium and the high costs of lending to small borrowers. Recognition of the importance of these factors should not blind one, however, to the important function of high nominal rates of interest and high nominal indebtedness as a means of increasing the bargaining power of the money-lender in the struggle for the share

in the produce of the land and for acquisition of the various rights of disposal over land itself.

Even if comprehensive statistics were available of the nominal volume of debt and the rates of interest, their purposely unreal character would make them useless as indicators of the burden and evils of indebtedness. The real position would be best illuminated by the knowledge of the total output of a cultivator and of the distributive shares of the agriculturalist and the money-lender in that produce. Even to-day there are no systematic statistics of that kind, which alone would describe the immediate cost of money-lender finance to the cultivator, in anything like precise terms. A sampling inquiry in the way suggested by Professor Bowley[1] would have been most useful.

Isolated fragments of information on agricultural debt and interest charges are available. Interesting data are provided by the 1875 Deccan Riots Commission which throw light on the history of the matter in the first three-quarters of the nineteenth century.

The capital account of a typical ryot is given by the report as follows. Presumably it is a statistical "mode" rather than an arithmetical average. Excluding the value of land, the capital account is as follows:

	Rs.
Live-stock	125
Implements and utensils	20
House	50
Miscellaneous	20
Total ...	215

The report considered that "about one-third of the occupants of Government land are embarrassed with debt, that their debts average about eighteen times their assessment, and that nearly two-thirds of the debt is secured by mortgage

[1] Bowley and Robertson: *Proposal of an Economic Census of India.*

of land." The report goes on to show that for 12 villages the results in figures are as follows:—

Total number of Government occupants	...	1,876
No. of Government occupants embarrassed	...	523
		Rs.
Assessments payable on their holdings	...	10,603
Amount of debts on personal security	...	1,18,009
Amount of debts on mortgage of land	...	76,233

The total debt is Rs. 1,94,242 or over Rs. 100 per holding. The report estimates that this was about double the selling value of the average holding. The land seems thus to have been insufficient security for most debts. But the report goes on to explain that this nominal indebtedness was largely artificial. "The solution of this apparent anomaly is that the amount of the debt as represented on the bonds held by the *sowkar* (money-lender) is far more than the real value of the consideration which has passed, and the *sowkars* in no case expect to be paid in full, ..." The report adds that the value of a mortgage was greater to the money-lender than the value of land to an ordinary purchaser, because " . . . . through the great reluctance of the ryot to sever all connection with his land, the *sowkar* is able to extract more than ordinary rent." Here the report touches on the basic matter of distributive shares in the produce of the land. The report mentions two extreme cases: one in which the money-lender "claimed" the *whole* produce of a holding and the mortgagor tenant said 'I cultivate land, but I have *no right* to take for my use any of the produce of the field.' On the other extreme a tenant is quoted who had to surrender one-quarter of the produce to the money-lender. The intermediate case quoted is one where the landlord claimed half the crop and the tenant paid the land assessment. These data do not furnish, however, definite information on the actual distributive shares. On paper, the money-lender had a greater "legal" or nominal

share than he usually actually took—and the deficit was made up by swelling the cultivator's debt further. In the cases of mortgage examined by the report the terms of mortgage were calculated to lead to cumulative indebtedness. The interest charge was made to exceed the annual payment to the money-lender so that "the mortgagee constantly receives the full actual rent of the land, and in addition exacts bonds for the yearly deficit."

The distributive shares so far mentioned, as described by the report are unfortunately largely nominal and fictitious—just as the rest of the money-lender's accounting.

The report does not give direct information on actual distributive shares. It does suggest that in many cases money-lending did lead to the impoverishment of cultivator both in real income and ownership, and to deterioration of his social status. Quite naturally the commission concentrated on the worst evils of money-lending since it was these that were responsible for the Deccan riots. What happened was that the intial advantages conferred on cultivators on the Government land by the Act of Settlement, gradually slipped away into the hands of the money-lenders. Similar developments occurred on non-Government land. "Besides the security of the ryot's personal credit, stock, and movables, house and lands, and the joint security of a surety," to use the words of the report, the ryot often also pledged his own and his wife's labour as security and the means of discharging a debt to the *sowkar*. The labour due to work on the money-lender's estate shows the close approximation to the serf-system obtained by the money-lender "finance" in the more extreme instances of indebtedness. An interesting extreme instance is cited by a report on survey and settlement for 1908-15 by J. D. Sifton, I.C.S. He describes the *kamianti* system in Behar and Orissa.

Nominally free but indebted, the *Kamias* were really serfs belonging to money-lenders. Quoting J. D. Sifton, "Kamias are bound servants of their masters; in return for a loan received, they bind themselves to perform whatever menial services are required of them in lieu of interest due on the loan . . . . The *kamia* never sees any money . . . . consequently he has no chance of ever repaying his debt. . .

A *kamianti* bond therefore involves a life sentence." J. D. Sifton adds that the serfdom becomes hereditary and that "the sale and purchase of kamias is by no means uncommon. . . ."

Truck-shop business supplemented the other methods of the money-lender in keeping a hold on the small cultivator. The 1875 report describes how small retail sales of accessories by the *sowkar* to the ryots were made on credit, and each sale "even the most trivial" was accompanied by writing a contract (or "bond") to repay the credit. ". . . . Every debt is protected by a bond giving the *sowkar* unlimited powers of recovery, and the credit side is . . . . left to the honesty of the creditor."

The 1880 Famine Commission gathered information on money-lender finance for the whole of India. The picture drawn is similar to that of Deccan, but of course shows a wider range of variation. A historical retrospect is provided and is quite similar to that contained in the report of 1875.

The gist of the position of agricultural indebtedness for India as a whole about the year 1880 is given by the following quotation: "We learn from evidence collected from all parts of India that about one-third of the land-holding class are deeply and inextricably in debt, and that at least an equal proportion are in debt, though not beyond the power of recovering themselves" (1880 *Famine Commission Report*).

The report then goes to draw a correlation between the extent of indebtedness and the nature of the royt's right of disposal over land and also the level and insecurity of the ryot's income. The incidence of indebtedness was found to be heavier among "landholders" (or peasant-proprietors) than among tenants with occupancy rights and among the latter was heavier than among tenants-at-will, who were thus the least prone to indebtedness of the three classes of ryots. The explanation naturally proffered by the report was that the three classes offered different security to the money-lender, so that the three classes of ryots fell in the same order of indebtedness as they were ranked in respect of the comprehensiveness of their right of disposal over land. But in so far as the money-lender aimed to acquire ("alienate") those rights from the ryots it is quite clear that it was also worth

while to make special efforts to ruin the proprietor rather than the occupancy holder, and the latter rather than the tenant-at-will.

The correlation of indebtedness with the characteristics of the output and income of the cultivator drawn by the 1880 report is of the same kind as that offered by the earlier report. The degree of indebtedness is said to increase with the poverty of the cultivator and with the degree of risks and fluctuations of his harvests. For instance, the more prosperous cultivators on irrigated lands are said to have been relatively free from debt, as in the Punjab canal settlements. It is interesting that among other advantages of efficient irrigation, State-irrigation was also a good cure against money-lender finance. Although the irrigation report of 1903 does not explicitly mention this advantage of irrigation, the commissioners certainlv implied it when they spoke of the beneficial efforts of irrigation on the "prosperity" of the cultivator.

Similarly, when incomes of cultivators increased for other reasons, the incidence of debt among them declined. Thus the incidence was small among the cultivators of Eastern Bengal enriched by the profits of jute cultivation and cotton cultivators benefited in a similar way during the boom of raw-cotton export occasioned by the American war in the sixties. But in parts of India where climate made cultivation insecure and there was no adequate irrigation facilities, or land was infertile or scarce, the income of the cultivator was small and or strongly fluctuating and the incidence of debt was high. Such was the case in Bombay Deccan, the neighbouring districts of Madras, and Jhansi. Extravagance as a cause of indebtedness is said to have been prevalent in Oudh, Sind and Gujerat.

Now, we do get some idea of the extent and the immediate causes of indebtedness from the information summarized above. But the idea is necessarily vague. Unfortunately the reports do not define the degree of indebtedness in any precise way. We are really left to judge of its seriousness by its consequences: the Deccan riots, and the "alienation" process by means of which land and occupancy rights slipped away from the cultivator into the nimble hands

of the larger landowners, and of the *sowkar* and the *marwari* money-lenders.

The *marwari*, as distinct from the other money-lenders, was "a foreign usurer." He immigrated temporarily to districts offering scope for money-lending finance and did not settle there permanently. This will be an important consideration when we come to deal with the question of the effects of money-lending on agricultural efficiency.

The extent of indebtedness is stated to have beeen on the increase in the nineteenth century. But the facts are not clear. The proportion of cultivators heavily indebted may have been constant, and yet increase in the volume of agricultural debt and increase in the number of money-lenders and the process of "alienation" could have all taken place—because of the increase of population. But the evidence of the Reports tends to suggest that the proportion of cultivators in the grip of the money-lenders was increasing.

It is clear that Government land tenants were losing their rights to the money-lender and the proportion retaining them declined. But the facts are obscure with reference to other classes of tenant. There is only a presumption that they too suffered a similar fate—namely, that an increasing proportion of them became heavily indebted and were losing their rights and privileges to the money-lender and the larger *sowkar* landlords. The reasons given by official reports that the movement observed on Government lands was also widespread elsewhere, were (1) increased legal protection of the creditors as British administration took firmer root, and (2) increased value of land offering better security and more temptation to "alienate." It is possible that the growth of population may have also contributed to the proportion of cultivators who suffer from debt. The extension of cultivation to inferior soils and the "subdivision" of holdings (division of holdings among the sons of a ryot) consequent upon the increase of population increased the number of poorer cultivators. But this was being largely counteracted by the improvements in agricultural earnings brought about by the development of irrigation, communications, and the great export trade. The net effect on the incidence of poverty is obscure and so is, in consequence, the effect on the proportion indebted.

To the factors (1) and (2) mentioned above a third factor which seems definitely to have contributed to the process of alienation, may be mentioned. It is of somewhat "theoretical" nature and seems to have escaped the notice of the official reports. In modern European economic history, there is a fairly definite pattern of development in the transfer of land among the different classes of agrarian population—the growth of middle-sized holdings and "middle class" farmers. This took place (1) as a result of elimination of very small-scale farmers (owners or tenants—the difference is not vital to the present argument) who were replaced by a class of landless labourers, and (2) as a result of the break-up of very large estates which were previously worked on a large scale in a manner of feudal estates (especially in Central and Eastern Europe). There was a movement towards concentration of farming in the form of intermediate-sized business-units, with the farmer employing a few labourers. The replacing of feudal agriculture by commercial agriculture was accompanied by this movement. It appears that the "middle class" farming unit was the most economical size for the conditions of commercial agriculture which grew up in Europe and were developing in India in the nineteenth century. If the theory is correct, then it follows that the extension of the "money economy" in India, of which Marshall spoke, and in particular the spread of the "circle of exchange" to agriculture, was bound to produce the growth of middle-sized agricultural business-units at the expense of those of a very large or a very small size. It may well be that the money-lender became the head of this intermediate-sized business. "Alienation" made many money-lenders into the true "entrepreneurs" of Indian agriculture, with the ryots who worked for him becoming a compromise between a wage-earner and a serf.

This seems to be the fundamental explanation of "alienation," with indebtedness only as a symptom, a technique and a disguise. In the economic history of India the inquirer is more troubled with symptoms and disguises, than in the case of any other country. India is not only a country of compromise where true distinctions and classifications become obliterated, and fictitious distinctions and classi-

fication are put in their stead, but where confusion and obscurantism were deliberately fostered by interested parties as a technique for protecting their vested interests. It is consequently very troublesome to dig underneath those disguises and to discover the actual forces at work. Money-lending was carried on, on the pretence of financing enterprise. But money-lenders' accounts (if any), the distributive shares, and the legal position of an indebted ryot as a free economic agent, were often pure fiction. Where the ryot was said to have been losing his rights over land through indebtedness, we really witness the concentration of "entrepreneurial" function in the hands of the money-lender brought about by the commercialization of agriculture, just as the capitalist farmer in Europe was the creature of commercial development. The reasons for the predominance of medium-scale agricultural "business" and the parallel decline of many small cultivators to the status of land-less labourers, in course of commercial development of agriculture, were the following. Production for sale caused a process of competitive selection whereby the more enterprising (and frequently unscrupulous) cultivators undersold their less enterprising competitors, accumulated savings and acquired land from the failing competitors. Initial possession of relatively substantial capital was a great advantage in the competitive selection. Production for sale, rather than for self-sufficiency, made somewhat more capitalistic methods of production profitable, partly on account of greater specialization on particular crops. A greater outlay on implements and draught animals was involved. The old-fashioned small cultivator had no money for these, and often no requisite aggressive spirit of enterprise, and so could not compete with the wealthier and more enterprising peasant. The latter, once started on the new path, rapidly accumulated new savings, thanks to the expanding market where he sold his produce for money. In a word, development of production for sale against money, rather than for old-fashioned local self-sufficiency, created opportunity for somewhat more capitalistic methods of production in agriculture. The capitalist-farmer was the outcome of this process in Europe. In India, while in some parts (such as irrigation settlements)

the class of capitalist-farmers was also strengthened by commercialization of agriculture; in many others, less prosperous parts, the place of capitalist-farmer of the European type does appear to have been taken by the money-lender. The control of the money-lender over land and labour was strengthened because he had the capital required for the more capitalistic methods of agriculture called into being by the commercialization of agriculture, *i.e.*, by increase in production for sale rather than for self-sufficiency. The spread of the money-economy to the country-side, which Marshall emphasized, led to the "capitalization" of agriculture and to the creation or strengthening of the class of petty capitalists in agriculture. In India these petty capitalists appeared largely in the guise of money-lenders. These money-lenders were not mere financiers, they were controlling agricultural production by means of "alienating" property and tenancy rights and increasing their "hold" over the peasant and labourer. "Alienation" and the increased "hold" over labour meant that the money-lender assumed entrepreneurial function to an increasing extent, as well as provided the increased capital required by the "commercialization" of agriculture. It is interesting that expansion of rupee-currency, which improved the investment opportunity in general, seems to have had that effect also on Indian agriculture. It accelerated the spread of "money-economy" to the country-side and called forth somewhat more capitalistic methods of production largely under the control of money-lenders. Commercialization seems to have been the fundamental cause of the emergence of the problem of increased agricultural "indebtedness." The usual explanation which attributes the development to two factors: greater protection of creditors by British law, and the rise in the value of land which gave better security to the money-lenders, is as superficial as it is plausible. On our analysis, the social problem of money-lending became aggravated simply because of the spread of "money-economy" and of more capitalistic agricultural methods, in a word—because of capital development.

In other countries the process of development of petty capitalism in agriculture was very much clearer than in

India. In India the same fundamental causes (spread of money-economy etc.) were bound to produce the same result —one of the most inevitable laws of economic development is not likely to have been violated in the case of India. But the working out of the law in India was very much obscured by the guise of the problem of "indebtedness."

Social obscurantism, ultimately enshrined in the caste-system, was ferociously rampant in India, and every social issue—of which agricultural debt is an instance—was distorted almost beyond recognition. The money-lender, with his bogus accounting, pretended to be a financier whilst he was becoming more and more a capitalist farmer and serf-owner. He succeeded in confusing the successive Royal Commissions and the Government of India. Consequently, the legislation which was adopted was mainly beside the point and missed the mark. It was based on the premise that the aggravation of money-lending was due to the establishment of law and order and the appreciation of land, which was a superficial premise, if not altogether a false one. It is not surprising, therefore, that legislation failed in its object of arresting the growth of agricultural dispossession and indebtedness. The Government chased the phantom rural financier whilst the capitalist farmer and serf-proprietor looked on and chuckled from aside. Most legislation that fails does so because of a false or perverted reading of the facts.

It is useful to give an instance of the failure of legislation on the "debt" question. The statement of the general reason for failure is not enough to enable the reader to get a firm grip of the matter.

The report of the Deccan Riots Commission was followed by an Act of 1879 applicable to four districts of Deccan and intended to reduce indebtedness and dispossession. The main provisions of the Act were the following: The courts were to brush aside bogus accounting and to make an effort to estimate the actual advance made and to scale down artificially high rates of interest, mortgaged land of an insolvent cultivator could be sold, but if un-mortgaged it could be managed by the Collector for seven years. Village registrars were to supervise the making of contracts in respect of new debt. Conciliators were to be appointed and the

period of "limitation" was increased from 3 years (which obtained since 1859) to 12 years for registered debt and 6 for unregistered. A cultivator owing over 50 rupees could be declared bankrupt by the court. This appears to have given an opportunity to the cultivator, if he had lost his property, at least to cancel his pledge of his labour to the money-lender and escape serfdom. Minor amendments of the Act were passed from time to time, the last in 1912 within the period before 1914.

The verdict on the working of the legislation in Deccan is summarized by the Famine Commission of 1901. They say: "It is unnecessary to trace here the efforts which since 1875 have been made to remedy this lamentable state of things. Commissions have sat and reported; Acts of the Legislature have been passed and amended; executive action of various sorts has been taken. But, of all, the result has been disappointment." The report then adds, significantly, that "Comparing the statistics of sales and mortgages in the four districts to which Relief Acts have applied with the corresponding figures in non-Act districts, and weighing the evidence of the witnesses on the point, we form the conclusion that these Acts have done little substantial good. Indeed, there is positively room for holding—and statistics show—that transfers of property (dispossession of small cultivators), both by sale and mortgage, have become more frequent in the districts to which the Relief Acts apply." It seems clear, therefore, that the legislaion failed to arrest the increase in indebtedness and the transfer of land and tenancy rights to the money-lenders.

The Report of 1901, like all other reports, still thinks of the problem as one of credit and pays no attention to the gradual changes in the process of production and crops raised, and to the gradual spreading of the money-economy. The debt legislation could not stem the advance of commercialization of agriculture and the extermination of the old small cultivators of the old type. The fundamental reason for this development in all countries where it took place was superior efficiency of the new form of organization of production. Thus alongside its evils, the money-lender dominance was established by solid economic advantages, and was ac-

companied by increase in total output, working population, and in the export trade of agricultural produce. Nevertheless, the new system had vicious features in it which impaired its economic efficiency and made it less efficient than it would have been had those features been eliminated. The two main evils were the elements of serfdom and the incomplete transformation of the money-lender into a farmer-capitalist. Serfdom reduced mobility of the labour. Labour was prevented from moving where it would have been more effective and would have earned higher wages. The first aim of policy should have been the establishment of a free, competitive, labour market in agriculture. The elimination of the element of coercion inherent in the serf-system would also have constituted a gain in social utility, as well as a gain in productivity that would have resulted from freer mobility of labour.

The spur of competition under free labour system would have forced the employers of agricultural labour to greater efforts to improve crops, equipment, land and organization (including "consolidation" of small and scattered holdings) and would have led to speedier elimination of backward employers and cultivators. The second aim of policy could have well been to effect a more complete transformation of the rural money-lender into a capitalist-farmer, and to separate the functions of rural finance from rural enterprise. In cases where the money-lender had complete control over the land and over the cultivator, the pretence of financing could have been made illegal. The "lender" could have been declared to be the owner or tenant-farmer and his claim on the labour of the "borrower" in payment of debt declared void and illegal. He could be compelled to pay wages to his labour for their services, or quit the business. It is the normal function of a capitalist to advance wages during the cycle(s) of production. The finance of population distressed by famine could have been left entirely to the Government, as indeed was already the case when famine was severe and widespread. Sweeping away the servitude to money-lenders would have been no empty change of appearances only. For the system involved a real cost. That due to immobilization of labour has been mentioned.

In addition, much time and energy was wasted in cheating and manoeuvring[2] on both sides, between the debt-ridden cultivator and the money-lender. There was division and confusion of the entrepreneurial (production and business-planning) function between the two parties. Opportunities to effect improvements were consequently often neglected. The "debtor" refrained from effecting them, thinking that the benefit would slip into the hands of the usurer in any case. The money-lender could not compel the ryot to carry out the improvements either by offers of higher remuneration or by threats of expulsion. Higher income of the ryot would have undermined the creditor's hold over the cultivator—a point implied in the reports—and wholesale eviction would have violated conventional rights under the caste-system and might have led to rioting very much as it did in the Deccan. Here we have another instance of the obstacles set by the caste-system, by the traditional rights and duties, to the process of commercialization and capital development. The prevalence of serfdom in various degrees of concentration and dilution was also sanctioned and supported by the caste-system which thus was partly responsible for the lack of mobility of labour.

The entrepreneurial function was exercised particularly badly by the foreign *marwari* money-lender who acquired control of land and of cultivators. He regarded his residence in the district as temporary and was little interested in long-term improvements of land and the organisation of cultivation. The same was largely true of those local money-lenders who had little experience of actual management of agriculture previous to their acquisition of controlling power

[2] "There is nothing vague or astonishing in the suggestion that this lack of mental hygiene was a real handicap to production. Lying and unreliability in business increase the cost of production (by increasing uncertainty and risk), as the commercial classes in England discovered in the nineteenth century when they found that "honesty was the best policy"—the most paying policy. Complaints were heard of a certain lack of reliability in Indian business. If it existed, much of this unreliability could be traced to the prevalence of money-lending which provoked a permanent epidemic of unveracity.

by "alienation" and by their increased hold over the indebted ryot.

Nevertheless, the increased control of agricultural production by money-lenders was accompanied by improvements in the methods of production and division of labour. Primitive as the methods were by the end of the nineteenth century they were less primitive than at the beginning of the century. There was improvement in equipment, and draught-animals were substituting human labour in heavier tasks. There was an increase in specialization on marketable crops. Even if there is little direct evidence of improvement in the technical methods of production, it may be safely inferred from the fact of increase of production for sale rather than for self-sufficiency. For such improvement is inherent in the process of commercialization of agriculture. Commercialization of agriculture has always involved agrarian capital development.

Now, had the Government realized that this process of agricultural commercialization and capital development was going on at all, its efforts against the evils of money-lending might have been more successful. But even then the inertia of the caste-system would have greatly impeded the measures and only very modest results would have been secured. Drastic measures alone would have produced a decisive effect and these were ruled out by the British tradition of gradualness in reform.

The Government does not appear to have been clear as to what aims were necessary and practicable. They regretted "alienation" of land and the increase of the class of landless labourers, and they tried to oppose this. But the policy was vain, because dispossession of large masses of cultivators is inherent in the process of commercialization of agriculture.

With production for sale in the market gradually displacing self-sufficiency, a new middle class was bound to spring up on the land, just as commercialization and the use of more capitalistic methods gave birth to a new middle class of traders and manufacturers in the towns. All ryots could not become capitalist-employers of labour, the process of selection raised some to this higher status and the same selective process lowered others to the rank of land-less

labourers. The Government could not have stopped this, unless it was prepared to put a stop to the commercial and capital development of agriculture and thus impede the growth of the national income. Even if money-lending were abolished, the commercial and capital development under conditions of market competition would have still led to the growth of a class of capitalist employers of labour and to the growth of the class of labourers owning little or no property of their own.

What money-lending did was to aggravate the process of formation of the two economic classes, and to add to the list of evil aspects of capital development of Indian agriculture. The evils so added by money-lending "finance" have been summarised under two headings: serf-like immobility of labour and the confusion and partial paralysis of the "entrepreneurial" functions of the ryot and the money-lender. The Government should have concentrated attention on removing these two evils (which are of course closely interlinked) and should have resigned itself to the creation of a landless proletariat as the inevitable price of progress on *laissez-faire* lines. The only alternative policy would have been some sort of state control of agriculture, but such an alternative was unthinkable to most governments before 1914 and, therefore, for practical purposes did not exist. The *laissez-faire* policy of eliminating the two-fold evils of money-lending should have been in any case related to other important agrarian problems, notably the "subdivision" and "fragmentation" of individual holdings. Subdivision was the uneconomic partition of inherited land among heirs, and by fragmentation is implied the multiplicity of tiny plots of land, sometimes situated at a considerable distance from each other, which constituted a unit holding or a unit of cultivation. Agricultural policy as a whole should have been more integrated. Capital development of agriculture—the growth of the middle-class capitalist-farmers—does tend towards consolidation of land into compact and efficient holdings. The money-lender into whose hands the control of land was drifting, may not have overcome "fragmentation" but he counteracted "subdivision" because in his hands a relatively large quantity of land was managed in what was to a large

extent a *single business unit* of which he was the head. But the transformation of the rural financier into farmer-capitalist was not complete, and the resulting ambiguity of the entrepreneurial function, it has been noted, was one of the chief evils of the capital-development of Indian agriculture.

It would take me too far out of my subject if I were to suggest the policies which should be followed by the State. Even at the risk of being considered a bit irrelevant, I may suggest the lines along which the State should proceed. If it proceeds along these lines, the co-operative movement would have a brighter future and the needs of the agriculturist would also be satisfied, at least for a fairly long period. In order that co-operation may flourish, the environment also should be attended to. Up to the present successive Registrars of Co-operation have devoted attention only to the defects of the co-operative movement which are many and cry out for eradication, and not to the magnitude of the problem and the economic environment. To employ a phrase current in Military affairs: officials have no conception of strategy but a sound knowledge of tactics.

The State should have encouraged and controlled the tendency of capital development to produce consolidation (and de-fragmentation) of land into compact economic holdings, and should have combined a policy of fostering "middle-class" agriculture, untrammelled by the shackles of money-lender "finance," with a policy of consolidation of small and scattered holdings in the hands of that middle-class.

In some countries this policy of securing compact middle-class holdings of land was made relatively easy by the fact that it was largely a matter of parcelling out large feudal estates among the capitalist-farmers and peasant-proprietors. This made application of State-aided and co-operative credit for the purpose of enabling the peasant-farmer to acquire the land relatively easy. In India the opposite process of pooling small scattered plots and then parcelling them out in more compact and economic holdings was necessary, and this was a much more difficult matter. This handicapped any policy of State-organised credit for the purpose of land consolidation in the hands of the agricultural middle-class. It may be noted, that in countries

where the policy of parcelling out of the feudal estates was carried out (with considerable success) it was held essential that the land should become the property of the peasant or farmer. It was held that this secured full play for the motive of self-interest and self-help and greatly increased efficiency as compared with farming of rented land. The desire for ownership of land is very much in the national character of the Indian cultivator, and it appears, therefore, that the same policy of fostering land-owning farmer-capitalists or peasant-proprietors might have been tried out in India. At the same time the State should have fostered a free market for agricultural labour while protecting it from exploitation by employers taking advantage of the weak bargaining power of the labourers. Most of the important agrarian problems, such as those mentioned above, are closely inter-related and indeed constitute a single "whole" problem. But it is difficult to see the whole of a whole problem, and the agrarian policy of the Government of India certainly did not achieve it. Similarly, agricultural policy and industrial policy and financial policy interact, and co-ordination of ideas about them would have constituted "political economy" in the best sense of the term.

If this is done the old controversies about how co-operation should be independent of official control and how much encouragement should be given to the agriculturist will recede into the background; also co-operators will have an appreciation of the magnitude of the problems which they will have to tackle.

FINANCE OF LOCAL BODIES IN THE PUNJAB*

BY

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Finance of Local Bodies in the Punjab.

In the Punjab, a study of whose local finance has been attempted in outline in this paper, there are four types of local bodies functioning at present: Municipal Committees, (and Notified Area Committees), Small Town Committees, District Boards and Panchayats. The first two may broadly be said to function in urban areas—cities and small and large towns—and the latter in predominantly rural areas. Of these, municipal committees and district boards were set up some years after the establishment of the British rule in 1849. The earliest Act in the Punjab dealing with municipal administration was the Act XV of 1867. The most important function of the municipal committees was, in the beginning, the maintenance of police and preservation of order and sometimes as much as 4/7th of municipal revenues was spent on it.[1] District Committees came into existence in 1871, though it was in 1883 that their functions and taxation powers were defined by the Punjab District Boards Act. The more important duties of a district board were maintenance and construction of roads and other local means of communication, training of teachers and establishment of scholarships, water supply and famine relief and their cheif source of revenue, after the abandonment of octroi, was land rates.[2]

While a number of towns had municipal committees and had their affairs administered according to the Punjab

* This paper was submitted at the Twenty-fifth Conference of the Indian Economic Association.

[1] All Committees in the Punjab have been relieved of the charges for police establishment since 1st April, 1911. The Punjab Municipal Act of 1911 as subsequently amended governs municipalities and the notified areas which are quasi-municipalities differing from municipalities in that their committees contain no elected element.

[2] Amar Nath, *Development of Local Self-Government in the Punjab (1849-1900).*

Municipal Act, there were a number of other towns or areas for which a simpler form of administration was needed. To provide this, Town Committees were set up in 1923[c] when the Small Town's Act of 1921 came into force. No area of a town having a municipality or containing more than 10,000 inhabitants can be declared a small town under the Act. The functions of the Small Town Committees are in many ways similar to those of municipal committees. Panchayats in the Punjab functioned before 1921 as local boards of arbitration but under the Punjab Village Panchayat Act of 1921 (now repealed on the enactment of the Panchayat Act of 1939), the method of constituting them was laid down, limited criminal and civil jurisdiction was assigned to them and their administrative duties were also defined.

The two tables given below show the main features of the income and expenditure of the local bodies for the year 1937-38.[a] There have been no significant changes since that date.

TABLE I—INCOME.

Local Bodies.	Number.	Population (in lakhs)	Total Income (in lakhs of Rupees).	Incidence of Taxation per head (in rupees).	Main sources of Revenue.
1. Municipal Committees	123	26	173	3·8·2	Octroi, Terminal Tax, Municipal Properties and House Tax.
2. Notified Area Committees	26	·5	4·5	4·6·9	Do
3. District Boards	29	202	209	0·3·4	Local rate & Government grants.
4. Small Town Committees	104	·5	8	0·13·6	Personal Town rate, Property Town rate and rents.
5. Panchayats	1275	6·4 (b)	·5	0·1·3 (b)	Fees on Plaints and Suits and Fines.

(in lakhs of rupees)

Total Income of all the local bodies ... 395

Total Income of the Provincial Govt. (1937-38) ... 1198

[a] Latest year for which detailed figures are available.

[b] Assuming each panchayat village to contain 500 persons.

TABLE II—EXPENDITURE.

Local Bodies.	Total expenditure (in lakhs of rupees).	Percentage of total expenditure on Education.	Medical.	Public Health.	Public Works.
1. Municipal Committees ...	171	14·6	8·2	19·3	14·6
2. Notified Area Committees ...	4·5	DETAILS NOT AVAILABLE			
3. District Boards ...	197	57·9	12·2	4·1	11·7
4. Small Town Committees ...	7·8	14·1	6·4	23·1	7·7
5. Panchayats ...	·5	(c)	(c)	(c)	60·0
(d) Total of local bodies	375·8	37·0	10·3	11·4	13·0
Total of Provincial Govt. ...	1149	13·9	4·3	1·4	11·1

Municipal Finance.

The total number of municipalities in the Punjab in 1939-40 was 121 and their total ordinary income Rs. 165 lakhs. 34 notified areas had an income of about 6 lakhs of rupees. Municipalities in the Punjab, as in most other provinces, rely mainly on octroi and terminal taxes.[3] In 1937-38, 63 municipalities out of 123 levied octroi and 56 terminal tax while only 33 levied taxes on buildings and lands and only 7 imposed professional tax. During the five years preceding 1937-38, the number of committees imposing terminal tax increased from 42 (out of a total number of 115) to 56 (out of 123) but house tax and profession tax continued to be as unattractive as ever. The reluctance of the municipal committees to resort to direct taxation is an old feature of municipal finance in the Punjab but the terminal taxation has been taken up only in the last few decades. Owing to its greater convenience and other advantages over octroi[3] both the Committees and the public have preferred

[c] Insignificant.

[d] Excluding Notified Area Committees and Panchayats.

[3] Octroi is a tax on animals or goods brought within octroi limits for consumption or use within those limits while terminal tax is a tax on goods imported into or exported from a municipality, differing from octroi in that, when imposed on imports, no refunds

it to octroi. It is generally collected by the Committees, though it may be collected on rail-borne traffic by the North-Western Railway Administration on a commission basis, 5 per cent of the proceeds being retained by the Administration. The collection is subject to the condition that a similar tax is imposed on road-borne traffic. Before 1935, the Provincial Government could sanction the imposition of terminal tax in municipalities where octroi was in force on or before 6th July, 1917, but under the Government of India Act, 1935, terminal tax on goods carried by railway or air has been included in the list of federal subjects though the Committees that had been levying the tax before 1st April, 1937, can continue to levy it without any change in its rate or form until the Federal Government makes provision in this regard. Terminal tax will, therefore, have to give way to octroi and other taxes. In 1939-40, the yield of this tax fell from Rs. 58 lakhs to Rs. 42 lakhs while that of octroi increased from Rs. 22 lakhs to Rs. 39 lakhs.[4]

The necessity of exploring new sources of revenue is clearly brought out by the pitifully small expenditure of municipal committees on various social services which amounted in 1937-38 to about Rs. 6-8-0 per head. Standards of sanitation and public health are anything but satisfactory. Roads need improvement, provision for education is inadequate and there is many an Augean stable of filth and disease to be cleaned up. The taxes which the Committiees can impose at present are: (1) tax on buildings and lands up to $12\frac{1}{2}$ per cent of annual value, (2) tax on profession, art, trade and calling, (3) tax on vehicles and animals, (4) tax on domestic servants payable by employer, (5) scavenging tax, (6) tax payable by persons presenting building applications, and (7) any other tax out of the list of provincial subjects with the previous sanction of the

are given in respect of goods re-exported. In the case of most articles the octroi rate is an *ad valorem* rate whereas terminal tax is a specific tax. Octroi acts as a serious burden on through trade, is expensive in collection and provides opportunities for fraud, delay and oppression.

[4] *The Punjab Government Gazette*, dated 26th September, 1941.

Provincial Government.[5] Of these the tax on buildings and lands offered, in spite of its unpopularity, the best prospects for the expansion of the resources of municipal committees but the Provincial Government has encroached upon this legitimate sphere of local taxation by enacting the Urban Immovable Property Tax Act of 1940 under which it can levy a tax on urban immovable property at a rate not exceeding 20 per cent of the annual value. The rate at which the tax has been levied is $2\frac{1}{2}$ per cent of annual value plus another $1\frac{1}{4}\%$ until one year after the war. Similarly by passing the General Sales Tax Act of 1941 it has shut out the possibility of imposing a tax on retail sales to augment the resources of municipal committees.

The Municipal Committees are thus hemmed in. The possible directions in which they can now turn for augmentation of their resources are the following:—

1. Grants out of the proceeds of immovable property tax and sales tax and the transfer of the whole proceeds of entertainment tax from the Provincial Government.
2. Taxes which they have not yet properly exploited such as profession tax.
3. Increase in the rates and taxes already levied and making the rates progressive.
4. Cesses for special purposes such as extension of primary education.
5. Direct provision of electricity by taking it over from licensed private concerns.
6. Provision of certain lucrative public utility services such as transport service.

The extent to which it is possible to increase resources cannot, however, be stated in a simple manner and involves discussion of the whole basis of the finances of the country as well as the principles and efficiency of Local Self-Government. This we have reserved till the end of this article.

[5] Section 61 of the Punjab Municipal Act (Beazley's *Municipal Law and Practice in the Punjab, 1937*).

Small Towns Finance.

We may now turn to the Small Towns which occupy a peculiar place in the sphere of local government. They include localities varying from large villages with a few shops to prosperous market towns which approximate more to municipalities. From a financial standpoint, it is a little difficult to understand their *raison dêtre*, for they are too small as units of local government to be financially self-supporting. A fairly large part of the revenues raised by Small Town Committees is spent on establishment charges and maintenance of buildings. The chief tax imposed by them is a town rate in two forms: (*a*) a tax, commonly known as house tax, on all owners or occupiers of houses within the town limits up to 12½ per cent of the annual value of houses, and (*b*) a tax on all town residents assessed according to their circumstances but not exceeding Rs. 7/8 per month in any one Small Town. In the latter form the town rate is known as *haisyat tax* and is assessed with reference to all the circumstances of a man and not only with reference to his income. Women and children below 21 not owning a house or land are not subject to town rate. The Town Committees can also levy a profession tax and a tax on vehicles and animals besides any other tax which Provincial Government may authorise them to impose. Town rate in the form of house tax is not popular while profession tax was levied only in 6 towns in 1937-38. Taxation, in general, is disliked in Small Towns and people prefer squalor with comparative freedom from taxes to efficient administration. In many towns, educational, medical and veterinary institutions are maintained by District Boards with or without contribution from the Committees. The limited usefulness of Small Towns and their transitional nature is clear from the following observations in the Punjab Administration Report for 1933-34. "The record of the small towns generally speaking is that they did nothing in particular during the year and did it moderately well . . . . The Small Town is a part of the countryside, a depot for the trade and shopping of the villages within a certain radius of a Committee, the length of the radius being a day's journey by camel or bullock cart . . . In

the near future improved means of transport will destroy the Small Town as it exists today. The improvement of roads and regular motor-bus services throughout the province have made three-fourths of the small towns of no use as commercial centres. These Small Towns are bound to lose their status as such while the remaining one-quarter in which there will be concentration of trade and population will secure promotion to municipal rank."

District Board Finance.

There are 29 District Boards in the Punjab having a total income of nearly Rs. 239 lakhs in 1939-40. There are no local boards in the Punjab now; some such boards were established between 1884 and 1887 but they were subsequently abolished.[6] The sheet anchor of the District Board finance is the local rate levied on land subject to a maximum of 12 pies for every rupee of annual value of land. The annual value means double the land revenue for the time being assessed and, therefore, the maximum local rate leviable on land revenue is 24 pies per rupee or $12\frac{1}{2}$ per cent of the land revenue assessed. It is collected in instalments along with land revenue and is ordinarily not suspended or remitted with land revenue. The most common types of taxes levied by District Boards are *haisyat* tax which is assessed on a graduated scale on income of the assessees and profession tax which is levied on trade or profession irrespective of income. The Government of India addressed a letter on the 11th December, 1935, to the Provincial Governments enquiring about the distinction between income-tax and taxes on professions, trades and callings and drawing attention to the fact that taxes involving an element of income-tax had been imposed in the past. Proposals for the imposition of *haisyat* tax are, therefore, no longer entertained by the Provincial Government. *Haisyat* tax was imposed in 1937-38 by 12 District Boards and yielded about Rs. $2\frac{1}{2}$ lakhs and profession tax was levied by 15 District Boards and yielded about Rs. $3\frac{1}{2}$ lakhs.

[6] M. H. Mahmood, *District Board Law and Practice in the Punjab, 1940.*

All District Boards in the Punjab except those of Lyallpur, Multan and Sheikhupura receive grants-in-aid from the Provincial Government amounting to Rs. 12·2 lakhs in 1939-40, and ranging from Rs. 3,400 in Simla to more than one lakh of rupees in Kangra. Grants-in-aid are not given now as earmarked grants but as a single consolidated recurring grant subject to revision at the end of 5 years. But for special purposes such as education, earmarked grants are also given.

The overwhelming dependence of District Boards on local rate and Government grants makes their finances not only rigid but also vulnerable. The local rate which forms a fixed percentage of land revenue cannot be increased in the period between settlements except in areas such as Lyallpur where the sliding scale of assessment has been introduced. In these areas it varies with the fluctuation of prices and land revenue demand. The Lyallpur Board being the richest in the Province can, however, stand the strain of such fluctuations. When for any reason such as fall in prices, the land revenue is suspended or remitted, the local rate may also be suspended, and the grants-in-aid reduced. The District Boards have then to stop all expansion if not actually curtail their activities. The brunt of such curtailment may have to be borne by education on which more than half the funds are spent. Actually, however, it is the public works (meaning roads) and medical services that suffer from such curtailment and the Government made, some years back, an observation in this regard which will provoke a measure of disagreement. "It is a pity," they said, "to see how they (District Boards) have sacrificed the health of the people to supply more semi-literates."[7]

One way of increasing the resources of District Boards is to amend the law so as to raise the maximum prescribed for the local rate but any such change will be strenuously opposed by the agricultural classes. Another way is to reduce land revenue demand to the same extent as the local rate is increased.[8] This may not be acceptable to Provincial

[7] *Punjab Administration Report*, 1933-34.

[8] The Bombay Local Self-Government Committee has recommended that 10 per cent of land revenue proceeds should be assigned to the District Board within whose area they are collected.

Government at least during the war when they are faced with certain new demands on their revenue. The local rate ought to be based on a progressive scale instead of the present flat rate. If none of these measures is possible, the Provincial Government should increase its grants-in-aid to ensure progressive development of the vital activities of these Boards such as communications, education and medical relief. A grant-in-aid "is not a compassionate allowance but constitutes a charge which should fall on the taxpayer as distinguished from the ratepayer." But it has generally involved extension of control in the sphere of the Local Government. The very structure of District Board finance is such that grants are indispensable and will have to stay. Besides they also serve to secure salutary supervision and general uniformity in the administration of certain services. On behalf of the Government it has been pertinently remarked, "Critics of Government's interference with and control over the affairs of the Boards would do well to remember the fact that the major portion of the Boards' revenues comes from Government."[9]

Panchayat Finance.

The total number of Panchayats in 1939-40 was 1690 and their total income Rs. 97,485. In most cases the income of the panchayat was less than Rs. 100. The main sources of revenue are fees in connection with judicial work and fines, the other items being *dharat*, *ahrat*, sale of street sweepings, fees from cattle pounds and voluntary contributions. The provision in the Panchayat Act for the levy of village rate for meeting the expenditure for the compulsory duties of a Panchayat and for a special rate for other duties that might be undertaken is being availed of by only a few Panchayats due to the usual reluctance to impose taxation. A fairly large part of the funds—about one-half in 1937-38—is spent on the construction and maintenance of public ways and drains, wells, ponds and tanks. Very meagre amounts are spent on such important activities as improve-

[9] *Report on the Working of District Boards, 1933-34.*

ment of agriculture and livestock, promotion of cottage industry, lighting and public gardens and playgrounds. The sphere of administration of the Panchayats has been extended under the new Panchayat Act of 1939.

In the creation of clean and healthy villages, in breaking the monotony of village life by providing means of recreation and in building up the tone of rural life, Panchayats have a useful rôle to play. But future progress depends nearly as much on the availability of larger funds as on the development of a sense of responsibility and spirit of public service.

This brief survey of the finance of local bodies in the Punjab clearly brings out the backwardness of our local bodies in respect of the provision of essential services. "For the average English citizen," said Graham Wallas, "the possibility of health, of happiness, of progress towards the Greek ideal of beautiful goodness depends on his local government more than on any other factor in his environment."[10] This observation contains a profound truth applicable to every country and in the Punjab one should not be slow to realize it. To build up the system of local government on durable foundations, it is necessary to ensure, *firstly*, the efficiency of local bodies and, *secondly*, an adequacy of financial resources. One need not turn a blind eye to the general lack of civic consciousness, the lack of public spirit among members of local bodies or the corruption among the staff nor to the cramping effect which official control and intervention bring into the sphere of local government but the main underlying cause of low standards in the provision of social services by local bodies is the lack of funds. It is lack of funds which often damps the zeal and efficiency of the members of local bodies the justification for whose existence is, in the eyes of the people, the material benefits which their activities bring to them.

Before discussing how the funds of our local bodies can be increased it is necessary to size up the situation and make a clear admission that the stream of finance cannot rise higher than its source—the taxable capacity of the people.

[10] Quoted in Laski's *A Century of Municipal Progress*, p. 11.

One may not, therefore, place oneself under the delusion that it is possible in a poor and economically backward country to raise the standards of local administration to more than a moderately high level. In such a country all useful activities have to be conducted at a subnormal level. Another necessary consequence of the low level of income is that there is a high degree of reluctance to part with more than a certain amount of income to be spent by the government—be it central, provincial or local. It is especially so if the benefit conferred by the Government is not direct or immediate. And it is a material and relevant consideration whether the public expenditure policy of central and provincial governments is directed to improve the economic condition of the mass of people so as to raise their taxable capacity.

Subject to this conditioning factor, one may discuss whether the taxable capacity of the people is being drawn upon in proper measure by the three organs of government in this country, *i.e.*, the Central Government, the Provincial Governments and the local bodies. It would appear that administrative decentralisation in India has gone ahead of financial decentralisation with the result that provincial governments do not have adequate resources to meet the cost of duties that have devolved on them and have in their turn encroached upon the sphere of local bodies. The delimitation of spheres of central and provincial finance may be taken as settled, at any rate for the present but delimitation of the spheres of provincial and local finance is absolutely necessary. The appointment of a committee to go into the whole subject of Local Self-Government in the Punjab appears to be overdue.

To augment the funds of local bodies, five or six measures appear to be possible: (1) the use to the full of their existing taxation powers by raising the rates of taxes and levying new taxes such as house tax, profession tax and a tax on marriage,[11] (2) better management of their pro-

[11] A tax on registration of marriages at the rate of Re. 1, Rs. 5 and Rs. 10 graduated according to declared income was recommended by the Punjab Resources and Retrenchment Committee in

perties to enhance the income obtained from them and also more efficient collection of taxes which are sometimes allowed to fall into arrear, (3) the transference of certain sources of income such as entertainment tax from the provincial government to the local bodies, (4) assigning a portion of the proceeds of newly levied taxes such as urban property tax and general sales tax to local bodies and a portion of the proceeds of land revenue to District Boards, (5) levy of special cesses which may be tacked on to house tax, village rate or the local rate for meeting expenditure on particular services, and (6) undertaking remunerative enterprises such as motor transport and supply of pure milk and ghee. Besides increasing resources by these various means it is necessary to explore every possibility of putting expenditure on more rational basis and making every unit of expenditure yield the maximum possible benefit. It is also worth consideration whether in the Punjab local bodies should not be relieved for some time of some of their duties by the Provincial Government so that they can discharge the remaining duties more efficiently and with less sense of financial suffocation.[12]

The local bodies in the Punjab have so far made little progress in the way of undertaking remunerative enterprises largely due to their reluctance to raise large loans for investments about whose success there cannot be any great measure of certainty. But even for financing drainage and town improvement schemes, the resort to loan method is not as frequent as it might be. It is partly due to the reluctance to increase taxation in order to meet repayments of principal and interest on the loans but the insistence on quick repayments of advances by the Provincial Government increases this reluctance further.[13]

1939 for Provincial purposes and was estimated to yield 4 lakhs. The tax is clearly one that may be left to local bodies.

[12] The Provincial Governments are already taking over class II roads from the Distrct Boards who may now devote more attention to class III roads.

[13] The Lahore Municipality obtained a loan which is repayable by 1st October, 1943, from the Government in 1940-41 to finance its drainage scheme and it complains in its annual report against

In the sphere of local government, perhaps more than in that of any other, the correspondence between the tax burdens and benefits is very close and the maximum of welfare can be promoted with the minimum of that sense of deprivation and sacrifice which are so commonly associated with all taxation. The development of civic consciousness among the people and better standard of honesty and efficiency in the management of these bodies will lead to a fuller recognition of this close correspondence of tax and benefit but the local bodies should make a start with cesses for the provision of specific services and amenities so that this correspondence may easily leap to the eye. Money has poured into the Punjab through rise in agricultural prices and taking up of military service since the outbreak of the war in 1939 and it would be a wise policy to appropriate a part of it for useful services such as education before it flows into less desirable kinds of personal expenditure.

this unsatisfactory system of quick repayments. "The drainage work being carried out is likely to last for at least thirty years and there is no obvious reason why the Municipality should not repay in equated instalments over a long period."

WELCOME SPEECH

OF

R. P. MASANI, Esqr., M.A., J.P.,

Vice-Chancellor, University of Bombay, Chairman, Reception Committee.

Sir Purshotamdas, Ladies and Gentlemen,

It devolves on me, as Chairman of the Reception Committee of the Indian Economic and Political Science Conferences, to extend to you our cordial welcome. Allow me to say, on behalf of the Reception Committee and the University of Bombay, at whose invitation the joint session of the two Conferences is held in this city, how gratified we are at this brilliant assemblage of distinguished academic representatives from all parts of India. Even experts can learn something from one another, and during these four days they will have ample opportunities to get to know one another or to renew old contacts, and to profit by an exchange of views on many problems concerning which you, with your knowledge and experience, are privileged to give sound advice to the madly disordered world of to-day.

The Economic Conference, which celebrates its Silver Jubilee meets, this year, for the fourth time in Bombay. We are very proud of the honour done to us by repeated visits eagerly awaited. We offer the Conference our warmest felicitations on the completion of twenty-five years of memorable work and wish it a prolonged career of usefulness and distinction.

The Political Science Conference, which is holding its fourth session, honours Bombay for the first time. We hope it, too, will favour us with many more visits and we wish it all success in propounding and disseminating sound views concerning the organization of human society and the position of individual states in the general comity of nations.

I am afraid, owing to our limitations, the Reception Committee has not been able to make such adequate arrangements for your physical comfort and needs as we should have wished; but I am sure our deficiency in this respect will not prevent you from reaching the intellectual heights expected of you in your discussions. In overcrowded Bombay, there are not such spacious guest houses or hostels for students as some Universities can resort to for accommodating visitors. It is appropriate, nevertheless, that Bombay should have been chosen as the venue of this joint session for the celebration of the Silver Jubilee of the Economic Conference and of the centenary of Mahadeo Govind Ranade, the Father of Indian Economics and the Guru of Gurus of our social and political reformers.

It might perhaps appear vainglorious for a Bombayite to sing the praises of the sons of Bombay, but a bare recital of a few names of Bombayites of the past generations who have played an illustrious part in the development of the political and economic thought in this country will, I trust, be immune from such criticism. Dadabhai Naoroji, Ranade, Gokhale, to whose work you will be paying a well-merited tribute during this session, were among the pioneers of economic thought in India long before your Economic Association was started. Similarly, in the field of politics, Dadabhai, Tilak, Mehta, Wacha and Gokhale, all from the Province of Bombay, have given the greatest impetus to the study of politics and political reform. They were not mere theorists or arm-chair philosophers; they were men of action, moving close to reality. May these sons of India of revered memory, to whose inspiration we owe so much, be the guiding lights in your deliberations!

The celebration of the centenary of Ranade in this city and in this very Hall moves me to recall at the outset the stirring advice given by him for the improvement of the political and economic condition of our country by our own effort.

"We should be unworthy of ourselves if we are not hopeful with our traditions, which transcend the tradition of every other nation in the world. You may take the map of Asia, Europe, Africa, or America, and you will find that

there is no other country in the world which presents such a continuity of existence over such a long period of time. Races and creeds have risen, thrived and decayed in other lands, but India is favoured, for, notwithstanding its abasement in many other particulars, the people of this country have been preserved from dangers, as though they were a people with a special mission entrusted to them. We, of the present, or those of our ancestors of the immediate past, may not be worthy to bear the standard of that mission, but still there is the fact that we represent a continuity of creed, of traditions, of literature, of philosophy, of modes of life and of forms of thought, which are peculiar to this land, and which have been carried to other countries by our illustrious ancestors in the past from this land. It cannot surely be for nothing that this particular favour has been shown to us under Providential guidance. If the miraculous preservation of a few thousand Jews had a purpose, this more miraculous preservation of one-fifth of the human race is not due to mere chance. We are under the discipline of a high purpose."

Progress in the political sphere was to be attained by the provision of a common platform on which members of the different communities might stand together as Indians first and Hindus, Muhamadans, Christians, Parsis and the rest afterwards. Obviously, in a country with a diversified population such as ours, progress could only be possible along all lines of human activity and for all classes and ranks of the people.

As regards economic development, it was Ranade's advice that we should avoid pursuing impracticable ends, husband our resources and not exhaust them by vain complaints against the drain of India's wealth from the country or by "battling Free Trade." The work that lay before Indians was to correct the disparity between the production of raw material and the production and distribution of manufactured goods. "We have rusticated too long," said he fifty years ago, "we have now to trun our hands to new work and bend our muscles to sturdier and honester labour. . . . . Natural aptitudes, undeveloped but unlimited resources, peace and order, the whole world

open to us, our marvellous situation as the emporium of all Asia, these priceless advantages will secure success, if we endeavour to deserve it by striving for it." Such was the creed he preached and such was his faith in the economic future of the country.

As this University's humble contribution towards the economic advancement of the country stands, in close vicinity of this Hall, our School of Economics and Sociology. Well-staffed and well-equipped, it has during the last two decades attracted a large number of research students from different parts of the country and trained them in methods of research, under the guidance of two talented Directors, Professor K. T. Shah and, after him, Professor C. N. Vakil to whom we are greatly indebted for valued services as Local Secretary to these Conferences, and who as you know was for some time General Secretary of the Economic Association and also its President for the year 1934. The work done by the students has elicited the approbation of experts in the subject who have visited the institution or examined their theses. The School has built up a library believed to be unique in India, and I have no doubt that, funds permitting, the University will expand the activities of the School, enhance the facilities afforded to post-graduate students for research and render it possible to have greater specialization in the different branches of Economics and Sociology.

Our Department of Chemical Technology, instituted to form a link between science and industry, may also claim to have rendered useful assistance in the economic development and industrialisation of the country. University graduates in pure science desiring to adopt an industrial career obtain here the necessary technical training in textile chemistry or chemical engineering.

May I take this opportunity to acknowledge gratefully the co-operation of eminent persons in the business life of Bombay in connection with the work of both these branches of study? The sustained interest, which you, Sir Purshotamdas, and a large number of other prominent businessmen, have taken in the work of our School of Economics and Department of Chemical Technology and in

the work of Conferences such as these, is in itself evidence of such co-operation. On behalf of the University I tender to you and the business community generally our warmest thanks for the encouragement thus given to the students and the Professors. I am sure that in course of time the ties will be closer and that the institutions will always obtain that support from the commercial and industrial concerns of Bombay which they deserve.

We have no separate Department of Politics in this University. Political Science is, however, included in the curricula of studies for the B.A. and M.A. Degrees. At the instance of Principal Gurmukh Singh, General Secretary of the Political Science Association, the Board of Studies in Economics and Politics has now under consideration the question of giving greater importance to the study of this important subject in the University syllabus.

Delegates to this Session! in these hectic days when the whole world is shaken to its foundations, our country is face to face with economic and political problems of far greater magnitude and importance than those confronted before. At such a juncture the discussions of experts of your standing will surely provide material, ideas and concrete proposals helpful to the statesman and the administrator in the adjustment of these problems. Nay, in this most crucial moment in the history of the world, when people's minds and hearts are opened to the need for a radical revision of the social and political systems in vogue, the whole world looks to conferences such as these for the best basis on which to build a new social and international order. When you discuss either the economic functions of the State or the economic reconstruction of India after the War, you will, I am sure, point out how the statesmen and economists of the world may profit by mistakes made in the past and deal not only with theoretical issues, but also with those numerous and complicated problems which are waiting solution in this country as well as in other parts of the world.

If I may be permitted to make an observation regarding the diverse world conferences held after the last War to solve the same problems that confront us to-day, I should

like to submit, with due deference, that they failed to indicate lines of peaceful progress for the nations of the world, because they failed to grasp the supreme lesson of the last struggle—the need for a revision of the constituent principle of social organization. The fundamental basis of society—the unity of man—was lost sight of. This basis, although accepted and even stressed in dissertations and discussions, was scarcely taken account of in actual practice. Utopian as it may seem, necessary though it is to bear in mind the chances of survival of a new order under twentieth-century conditions, it is, I suggest, imperative to devise a scheme of organization of society under which the sanctity of human brotherhood will be respected and the study of politics as well as economics will be linked with ethics. The world Economic Conferences and Peace Conferences held after the last war failed because the end they had in view was not the right one. To what end do we wish for a new world order? Is it for the mere multiplication of the sources of material enjoyment or political power for our own people? Unless the end is human solidarity, world citizenship, world community, better human intercourse and better association of individuls and nations, all our conferences and congresses will be of no avail. Henceforth an agreed framework of international society should underlie all our schemes for educational, social, economic and political progress.

At the last session of the Economic Conference its accomplished President, Professor D. R. Gadgil, pointed out that at one time it was a fashion to rail at the attention paid by economists to the political aspect of the problems with which they were confronted, and, he urged that the charge, if true, merely showed that such economists had a proper sense of realities. From that point of view the joint session of the Economic and Political Science Conferences was doubly welcome; and it would be thrice welcome if you, gentlemen, by your deliberations show that the study of the two sciences cannot be divorced from ethics.

Now, to come to the principal object of this gahering, I am sure, ladies and gentlemen, I am echoing the sentiments of all of you when I say that we are fortunate in

having in our midst on this occasion so distinguished a citizen as Sir Purshotamdas Thakurdas to inaugurate this joint session to which the Silver Jubilee of the Economic Conference and the Centenary of Ranade lend special interest. The unique occasion demanded a unique personality to bless the proceedings of the Conferences, one who combined intimate knowledge of economics and politics with the outlook of a practical man of affairs. Our choice could not, indeed, have fallen on a more capable or more eminently qualified man. We are very grateful to him for readily accepting our invitation. Such a busy and successful businessman of many-sided activities, the head of several important concerns in Bombay and the prop and support of important commercial and financial organizations, is in a position to appreciate fully the work of the Conferences and their contribution to the study of vital problems affecting the social, commercial, industrial and political well-being of the people of this land. Although Sir Purshotamdas is not now an active politician, very few in this country are in a position to influence the course of politics in India as he is; very few whose advice is sought so eagerly as his, alike by Government and the leaders of political parties. But more important than his contribution to the political advancement of the people is his contribution to the economic development of this country and the currents of economic policy, as a member of the numerous boards and committees and commissions dealing with economic and financial problems, such as Railways, Public Finance, Currency, Banking, and Trade Agreements. Anxious as you all must be to hear his inspiring message, I will now request Sir Purshotamdas to favour us with his address and to declare this joint session of the Indian Economic Conference and the Indian Political Science Conference open.

INAUGURAL ADDRESS

OF

Sir Purshotamdas Thakurdas, Kt.,

BOMBAY

Mr. Vice-Chancellor, Ladies and Gentlemen,

It is an honour to be asked to inaugurate a session of this Conference of Indian Economists, but the honour is all the greater inasmuch as this session is unique in the history of your Conference for several reasons. In the first place it is the Silver Jubilee Session of your Conference, and thus marks an era of useful work; in this period your contribution in building up economic thought and influencing economic opinion in the country has been of no mean order. In these laudable efforts we are reminded to-day of the inspiring work of the pioneer of Indian Economic literature, the late Justice Mahadev Govind Ranade, whose centenary you propose to celebrate by discussing at one of your sittings the whole subject of the development of Indian economic thought. Further, it was a happy idea to have the Political Science Conference in a joint session with the Economic Conference. This joint meeting emphasizes the close interdependence of Politics and Economics.

The Economic Conference meets for the fourth time in Bombay during its existence of 25 years. It is perhaps a good coincidence that Bombay is chosen as the venue of the Conference for this session. Bombay combines in its economic life both the practical and theoretical aspects in an eminent degree. In its commercial activities typified by the Great Port and the large Commodity Exchanges; in its industrial activities reflected in the great cotton industry; in its monetary activities found in the Stock Exchange and in the banks, now headed by the Reserve Bank; and in many of its other spheres of economic life, you have an abundance of economic data on which to build correct economic thought

for the country. As against such practical economic aspects of life in Bombay, in the University School of Economics and Sociology, we have under the able guidance of such a distinguished economist as Professor C. N. Vakil, a well-equipped institution which makes excellent use of the opportunities provided by this City to study economic problems in a scientific manner. I happened to know from personal knowledge that the School undertakes valuable research in problems of practical importance, and has attracted students from different parts of the country. In the learned Vice-Chancellor of the University, we have the somewhat exceptional combination of the scholar and the man of affairs, and I have no doubt that he is keenly interested in advancing the cause of higher studies in Economics in this University.

I referred to the close interrelation between the practical and the theoretical aspects of the work of the economist. This work assumes unusual importance at the present juncture when the world is passing through a period of grave stress and peril. The war has swept over the countries of Europe and has engulfed us in the East. But for the heroic resistance put up by Great Britain and the U. S. S. R., with material help from the U.S.A., we should have seen the end of Democracy and of all those ways of life which constitue civilisation. That this terrific struggle should cause unprecedented strain and suspense in all countries of the world is only natural. That hostilities of this nature amongst the most important and the most powerful countries of the world should upset all normal economic life in every corner of the world is inevitable. That stringent and unexpected restrictions on ordinary trade and commerce are the corollary of a totalitarian war like this is obvious. That India should be exposed to the full effects of this upheaval is only natural. That India is doing her best to help the British Empire with men, material and her limited resources in this titanic struggle is recognized by all. An Economic Conference of this nature, in the midst of such a world war, is best qualified to take an unbiassed view as to the effect on India of the extraordinary conditions under which the world is living. There are many who have been thinking of post-war conditions and how the world can settle down after the war, without the grave shocks

which characterised the period after 1918. In India, the thoughts of many, both in the academic and commercial spheres, have been moving towards this great problem of late. There is, however, one aspect of the problem in India which is wholly exceptional to it, at any rate in the British Empire, an aspect which cannot possibly be overlooked, and that is, the political future of the country after the war. It is recognized that India cannot reconcile herself after the war to the subordinate status of a mere dependency in the British Empire. Until, therefore, this one question is definitely settled, the work of economic regeneration in India cannot be envisaged with anything approaching either clarity of thought or finality of results. Even those who are not politically-minded consider a fundamental change in India's political position inevitable for the economic regeneration of India.

Such, in brief, is the background to the conditions in which this joint Conference of Economists and Political Scientists meets to-day. It will not be inappropriate, if I take this opportunity to refer to a remarkable feature of the industrial effort in India since the war broke out which has both economic and political aspects. We have been given figures which are supposd to be impressive as to the capacity of India to cater for the war requirements of the British Empire and the Allies since the war broke out. Industrial production of various articles and forms of equipment required for the prosecution of the war, and, in some cases, even for the civil requirements of the country, is reported to have gone up to a surprising degree. Of course, no one has raised at this juncture the question of the comparative cost of these industrial products. Whether this increased production has impressed the layman or not, the question naturally arises in the minds of the thinking public as to why no effort was made to produce in India the various articles required for the defence services in normal times or at least since 1920. The honest explanation of this can be found mainly in the anxiety of the Government of India under direction from Whitehall to see that the Indian market for British products was not allowed to be narrowed. India is said to have enjoyed fiscal autonomy since 1923. One may concede that at best it was

in some sense a limited fiscal freedom as compared to what existed before, but as everybody knows, this fiscal autonomy was so hedged in by all sorts of conditions either from the international or the Empire point of view, that it did put a severe restriction on the development of industries in India.

During the last Great War, a Commission went round all over India under the Chairmanship of Sir Thomas Holland and presented a useful report. Hopes were raised that on the recommendations of that Commission, effective and comprehensive action would be taken for establishing industries in India, especially those for which raw materials were available in the country to meet her own home demand at least. But immediately after the Armistice in 1918, the recommendations of the Holland Commission were not only neglected, but they were completely overruled under pressure from quarters which the Government of India could not control; the full details of the pressure were never divulged to the Indian Legislature. In fact, between 1920 and 1930 there was a continued struggle between Indian industries and the vested interests of industries abroad, prominently, of course, British industries. Wanton and unjustified appreciation of the value of the rupee was resorted to for this purpose in the teeth of continued and resolute opposition from the public at large. Later, at the Ottawa Conference of British and Empire interests, a delegation of a few nominated non-officials was sent. This delegation agreed to what are known as "Ottawa Preferences," which was a further brake on the pace of industrialisation in India. The last blows which the Indian industries received were what are known as the Mody-Lees Pact, and the Indo-British Trade Agreement of 1935, when the most arbitrary decisions were taken by the Government of India in spite of the opposition of both the Indian Commercial Community and the Indian Legislature. This, I think, summarises the efforts of the Government of India to benefit by the experience of the Great War, and to prepare India for the holocaust of the sort that the British Empire is going through to-day. The pace, therefore, of industrial production in India since the war broke out should be regarded more as a matter for admiration than for criticism, and if the productive capacity of India does not

come up to what her natural resources warrant, the blame must be sought in other quarters than in India; in any case not in the capacity and talent of the Indian, either the industrialist or the workman, to produce more. Let me give one instance in passing. The idea of sending a few workmen from India to be trained in England—known as Bevin Boys—sounds good. But why was this method not resorted to during the twenty years between the two wars? Various commercial bodies in India have been consistently complaining for almost half a century at least, that even ordinary training to Indians in British factories was denied. It is common knowledge that whilst foreign purchasers of British manufactures could, and indeed did successfully, insist upon a certain percentage of their nationals being trained in British factories as a consideration for their orders, is there any instance that can be quoted of Indians having been similarly trained? In fact, Indians were kept out; and, as the largest purchases of Indian machinery were through official Government channels, was any pressure brought to bear on the British manufacturers by anybody in India? Another point to mention in this connection is the hoary question of the policy pursued in the purchase of stores on which the various Chambers of Commerce consistently and firmly pressed the Government of India for a change with a view to promote industries in India. I mention these facts not with a view to evoke further criticism of the policy of the Government of India and the British Government in the past, but to draw attention to various acts of omission and commission which require to be scrupulously avoided hereafter.

The above account shows why complete freedom is necessary for the Government *in* India to enable the country to start planned industrialisation. So much for the insistent demand of which one has heard over the last 20 years for a sane and effective policy of industrialisation in India with a view to her economic development. That the result has not been by any means satisfactory in spite of the experience of the last war is evident. That the result will not be satisfactory until India is allowed to manage her own affairs and Indian Ministers responsible to the Legislature are in charge of what are known as Commerce, Communications (including

railways) and Finance Departments at present, cannot but be accepted without dissent.

In the interregnum, the attention of our economists may be usefully concentrated on every feasible effort to increase the purchasing power of the masses of India. India has so far been a preponderatingly agricultural country which has, therefore to depend mainly on the prosperity of her agriculturists. If one tries to take stock of the situation, one cannot but come to the conclusion that the efforts of the various Provincial Governments and the Central Government during the last three-quarters of a century have not resulted in any appreciable advance in Indian agriculture, either in the yield per acre, or in the quality of its produce, or, what is most important, in the standard of living it affords to the Indian farmer. It is true that stray efforts have been made regarding some of the staple crops of India. That is, however, like scratching the surface. What is called research work has been done to a certain extent, but I do not think that it can be claimed that such modest research work as has been done is either sufficient or has been followed up with any determined and long-range policy to bring the results home to the agriculturist in India. In short, the efforts so far made have been so meagre as to leave the standard of life of the Indian farmer as low as before. He lives on in his poverty, in his hovel, and on a diet bordering on starvation.

Besides this, the marketing of the agriculturist's crop, or making available to him the best price to which his produce is entitled, is another step which makes for the prosperity or otherwise of the agriculturist. In this matter also, whilst some work may have been done, it will be admitted that much more remains to be done, and he will be a bold man who can say that we in India have achieved anything like efficiency in helping the agriculturist to market his crop. To name only one instance, for an agricultural country like India to enable the agriculturist's crop to be marketed swiftly and with the least overhead expenses, the provision of reasonable transport is a *sine qua non.* Whilst railways and good motoring roads may be available in certain parts of India, the rural areas, where the masses of India live and toil cannot be said to be reasonably provided with transport.

The Bombay Economic and Industrial Survey Committee has pointed out that during the monsoon as much as one-third of certain districts in the Bombay Presidency are cut off from the rest of the world. In spite of this, one of the first forms of new taxation to be introduced after the outbreak of the present war was increase in railway freights, including freights on agricultural produce. This cannot but involve a more or less indirect tax on the grower. And this was carried through by the Government in spite of protests from the public at large, who pointed out that in some cases the growers were in fact getting less than their cost of production.

It is a pity that even to-day no data accepted as reliable are available regarding the cost of production of the major raw staples of India, to enable one to compare the same with the average price of the raw materials available to the agriculturist in the primary markets, so that the real condition of the agriculturist from season to season can be realized. The conclusion cannot be avoided that the agriculturist is the beast of burden of the Indian economic structure, and whilst both the Government and men in public life claim to have the interests of the agriculturist at heart, comparatively little has been done to ameliorate the condition of the bread-winner of the mother country. I would, therefore, like to emphasize that during the interregnum which must elapse between now and the period when the post-war condition in the world and in India may be clear, everyone interested in the welfare of India should see that nothing is done, either directly or indirectly, to encroach upon a fair return to the agriculturist for his raw produce. I will give an instance of what I have in mind. Since the war broke out, groundnuts and linseed have been bought by His Majesty's Government, presumably at rates on a parity with world rates for the seeds exported. Freight was allotted for this purpose on the basis of exports of private firms before the war, and it transpires that about 80 per cent of the exports went to non-Indian firms in India. At a meeting of the Export Advisory Council about a year ago, a non-official member raised the question whether the prices paid to the producers for the commodities exported from India were actually what His Majesty's Government were reported to have paid to the middlemen between India

and the United Kingdom. A most astonishing state of affairs was revealed, and it was admitted that very substantial amounts—£100,000 + £15,000—had been unjustifiably pocketed by the middlemen exporters from India. Thanks to the firm and impartial attitude of the Honourable Sir Ramaswamy Mudaliar, Commerce Member of the Government of India, it is now understood that a refund of this amount has been obtained from the exporters concerned, and it is to be utilised for the welfare of the growers of this raw material. The more serious thing, which has not been dealt with in the Government communique in this connection is the depreciation in price not merely for the quantity exported, but for the total quantity marketed by the Indian grower owing to this deliberate manipulation by the erring exporting firms. The surplus seeds in the Indian markets were bought at a price lower than the world price, as a result of the monopoly which was created by the arrangement between His Majesty's Government and the export firms in India. This is but one instance which has been brought to light, but you will easily realise that, owing to such indifference to the interests of the Indian grower, the whole of the crop in the season concerned depreciated in value, and to that extent the grower suffered. I mention this only to bring home to you one direction in which things can be tightened in the interest of the grower in India. The initial action has to be taken by the Government in India, but the commercial community and the public in general can usefully take a more sustained interest so as to prevent this sort of manœuvring of the market of the Indian grower, by interested parties taking advantage of the international conditions which prevail. It would be a truism to repeat that the purchasing power of the masses of India forms the foundation of the prosperity of India—even of commercial and industrial India, and, I am glad to note that you propose to discuss the problem of Rural Co-operation. This will, no doubt, give you an opportunity to consider some of the pressing problems of rural life. As stated in the excellent Review of the Co-operative Movement in India by the Reserve Bank, the magnitude of these problems altogether is stupendous. In the words of the concluding paragraph of that Review, "Raising the standard

of life of the masses of the Indian population—for that is the rural problem—is an uphill task. The standard of living is the whole manner of living to which a certain class of people are used, and no ready-made remedy of cheap credit is likely to raise it permanently: a widespread effort of educational as well as social and economic improvement alone may avail."

The few general observations regarding the economic policy of the country now and in the immediate future that I have ventured to make have their counterpart in economic thought. Economic thought is sometimes in advance of policy and influences the latter considerably. Often, however, the reverse happens. Like many other things, economic ideas were imported in our country and applied without reference to local conditions. One such is *laissez faire* which was imposed on India but did not remain without a challenge for long. Even before academic economists were in the field, Ranade, Dadabhai, Dutt and Gokhale were among those who took the lead in pointing out how economic policy in this country should be more progressive and national in outlook, and demanded vigorous initiative and organization on the part of the State. The teaching of Economics in the country was at the time either non-existent or restricted and what existed was dominated by the Free Trade School of thinkers, mainly the then members of the Indian Educational Service. It must be admitted that economic thought in the country was thus influenced mainly by non-academic workers first by Ranade, and then by politicians like Dadabhai, Dutt and Gokhale. Since the days of the stalwarts I have named, the Economist has come into his own not only in our country but throughout the World. The fundamental principle of social justice and adjustments as between individuals and individuals, classes and classes, and nations and nations, appears, however, to have been lost sight of. This is a problem on which students of Economics and Politics, will, I am sure, throw much light.

I wish to make one appeal as a businessman to the professional economists who are assembled here. It has been the complaint of many economists that their counsel is neither availed of by the business community nor by the

political parties. There is considerable truth in this complaint. I agree that it will be in the interest of the business community, the political parties, and, in fact, of the nation at large, if more attention is paid to the opinions of economists on problems of Indian policy. At the same time, may I remind the economists that the businessman's lack of readiness to accept their advice is born not so much of indifference as from a sense of bewilderment? Often the economist talks in a language which a businessman is not able to understand, and oftener the illustrations the economist uses and the conclusions which he draws appear to the businessman to be so far removed from the practical realities of the commercial and industrial world, that he does not know what to make of the economists' opinions. This difficulty on the part of the businessman, let me assure you, is a genuine one, and it would indeed be helpful if the economists would also on their part try and understand the point of view of the businessman. While I agree that the businessman in conducting his practical affairs is not perhaps so much concerned with theoretical considerations, the economist in putting forward his academic conclusions does not always appear to take into account either their practical background or thir practical consequences. This kind of difficulty might largely disappear if Indian economists were to undertake studies of concrete problems and come into actual contact with industrial and rural conditions, subject them to a scientific analysis and then put forward their conclusions. I believe this kind of work on their part would be at least as valuable as, if not more valuable than, their study of broad questions of general economic policy in this country. I also wish that some means would be found by which closer personal contact would be established between the business community and the professional economists. Need I assure you, Ladies and Gentlemen, that I am not underrating the importance of the contribution which you have made to the development of Indian economic life. All that I am suggesting is that your contribution and its influence on Indian economic affairs should be far greater than it is to-day, and the one way of securing that is to give a more practical bias to economic studies.

One is glad to find that due to a large extent to the impetus and the inspiration given by this Conference, Indian Economic literature has now grown to weighty proportions and compels attention both from the Government and the public. Unlike academic conferences in other subjects, your work has an immediate practical importance because it can influence and mould public policy for the benefit of the people at large, for what the economist thinks to-day may become a practical issue to be implemented in action by the politician tomorrow. I am aware that in the discharge of your duties as scientists you have not ignored the realities of the situation in the country and have often frankly criticised Government policy and suggested alterations suitable for the country in many cases. I am also aware that because of this very legitimate attitude on your part, you have been often blamed by persons in authority as being politically minded and therefore deserving to be ignored. This attitude of indifference towards your work reached its climax only a few years ago when the last Finance Member of the Government of India Sir James Grigg thought fit to redicule your work, in the Legislative Assembly. The recent innovation of the Honourable Sir Ramaswamy Mudaliar in inviting some of the leading members of your Conference to work as a Consultative Committee in connection with the very important problem of post-war reconstruction indicates a welcome change in the attitude of the Government of India towards the rôle of the Economist. I have already expressed my views regarding the difficulties of considering this problem at the present moment, and the important limitation due to the uncertainty regarding our political future. Apart from this, however, I consider this to be an important departure for the Government that the place of the Indian economist in the formulation of Government policy should be thus recognised. I need hardly emphasize that the members of the Committee have undertaken a great responsibility—not only for doing the work for which they have been called together, but also for establishing the necessary tradition for the economist in the country and for proving that the academic man has a worthy contribution to make in shaping our future.

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For the members of the Political Science Conference, the scope for their deliberations would appear to be exceptionally large and inviting under the existing circumstances. A representative committee of theirs, examining the question of what constitution would be suitable to India with her existing variety of thoughts, sentiments and economic conditions, can supply the political leaders and the lay public with an impartial and well thought out basis for serious thought and relief from communal and party bias. Such spade-work by students of Political Science must command consideration of all in the country, and may serve as the basis for discussion between political interests in the country at large. I may not enter into the erudite discussions of political theories to which you will rightly devote some of your time, but I note with satisfaction that you will discuss in a joint sitting the Economic Functions of the State. I am sure you will agree with me that the expansion of the functions of the State in our country with a view to ameliorate the condition of our masses has long been overdue, and that such expansion cannot be effectively thought of except by responsible Ministers elected by the people of the country. Your discussions on this important subject cannot but be characterised by that broad and practical outlook which is necessary in handling such a subject: and the close inter-dependence of your respective subjects will thus be brought out in its proper perspective as required by the realities of the situation in the country.

Even in the midst of war, these annual gatherings and exchanges of views are most useful. A distinguished Professor has said that the academical economist is "the custodian for Society of the long view in economic matters," and the Vice-Chancellor of the Mysore University last year said that "this long view is entitled even in troubled periods to a full hearing." I have no doubt that you will, as a result of your discussions during this session, make valuable contribution both to Economic and Political thought, and in that confidence it is my privilege to wish you all success in your work, and declare this joint session of the Economic and Political Science Conferences open.

PRESIDENTIAL ADDRESS

BY

J. P. Niyogi,

University Professor of Economics, Calcutta.

Ladies and Gentlemen,

I use no language of mere convention when I say that I am deeply grateful to the members of the Indian Economic Association for the honour they have done me in electing me to the Chair. It is an honour which I greatly value, coming as it does from friends and fellow workers all over India. Following the precedent established last year we are holding a simultaneous session with the Indian Political Science Association presided over by my distinguished friend Dr. Siva Ram. I take the opportunity of offering on your behalf our cordial greetings to the members of that body.

This time the Conference meets in the picturesque Capital of the Western Presidency, where the blue waters of the Ocean receive from the rocky isles around and from the vast subcontinent of which these isles constitute the main gateway, the rich treasures which the patient industry of our people prepares in abundance for the remotest corners of the globe. The city of Bombay cannot claim the antiquity of the metropolis of the Mahisha-Vishaya where the conference last held its deliberations. But the area in the Konkan which saw its birth became famous for its arts and commerce, cave temples, rocky fortresses and emporia of trade, already in the days of Hindu rule as evidenced by existing monuments and records of Greek and Arab mariners of olden times. The beautiful isles which nestle the modern city attracted the attention of Malik-ul-Tujar and sovereigns of Gujrat in the fifteenth century after Christ, and Franciscans endowed them with several beneficent institutions in the next. In the sixties of the seventeenth century a happy marriage that united a British King with a Portuguese princess led to the cession of the most important island to that remote country in the

Atlantic with which its fortunes are now indissolubly linked. Since that date the progress of the city that rose on this isle has been rapid. It became the metropolis of a great Presidency, the queen of Western India, the centre of its business and enterprise, trade and commerce. Here in 1885 and in the years that followed met many assemblies whose voice pealed like a trumpet note from one corner of the country to another. It was in this city at a meeting held in the Senate Hall of the University that the constitution of our Association was first drawn up and adopted, and it is in the fitness of things that once again we should assemble in this city in response to an invitation from the University of Bombay to celebrate our Silver Jubilee. Our Association, it may be recalled, was ushered into existence at a time of storm and stress when the world was passing through the agony of a frightful war whose devastating effect on the well-being of nations it took years to mitigate to any appreciable extent. By a curious irony of fate its Silver Jubilee which falls in the present year witnesses a fiercer conflict that spells ruin to all the ameliorative efforts of a quarter of a century. It is our mournful duty on the occasion of our Jubilee to pay our tribute of respect to the memory of some of the pioneers whose far-sighted vision was responsible for the inauguration of the Association—Lalubhai Samaldas, Gilbert Slater and Percy Anstey. Happily there are others who are still with us. May they long continue to guide our deliberations.

While speaking of the historic city whose hospitality we enjoy today, we cannot fail to recall the achievements of one of its most illustrious citizens who adorned its highest court of justice for more than seven years, the centenary of whose birth synchronises with the Jubilee celebrations of our own Conference. An erudite scholar, a far-seeing educationist, an ardent social worker, a keen advocate of religious reform, a prominent leader of political thought, the *guru* of Gopal Krishna Gokhale, whom an admiring countryman, himself one of the foremost leaders of the day, extolled as the diamond of India and the jewel of Maharashtra—Mahadev Govind Ranade has left the impress of his powerful personality on the political, religious, social and intellectual life of this ancient land. We are specially reminded this

day of the eminent services that he rendered to economic studies and for the material progress and the general uplift of our country. The publication of his Essay on Indian Political Economy was indeed a landmark in the history of the development of Indian economic thought. Many are the citizens of this great city who have moulded the destinies of India alike in commerce and other fields of human activity. Among them Ranade will always occupy a conspicuous place.

In the past you had eminent economists as your President who addressed you on diverse problems of our economic life. But I would crave your indulgence on this occasion for deviating from this practice. For I would like, if I may, to utilise this opportunity of placing before you a few reflections on the study of Economics in our Universities today. Thanks to the devoted endeavours of the pioneers—Ranade and Naoroji, Dutt and Gokhale—India was initiated into the study of economic problems. But the systematic study of Economics began in the first decade of the present century when the Universities gave it its rightful place in the scheme of higher studies. Since then a knowledge of the principles and problems of Economics has filtered down to a large section of the educated middle class. The science has gained a new status. Thirty years ago, it formed a minor part of the course in History. But during the last few years it has acquired an importance peculiarly its own. In many Universities today it is one of the most popular subjects in the Faculty of Arts. It makes a strong appeal to students whose interest in current economic problems has been aroused by the far-reaching changes that have taken place in the economic structure of the country. Nor have world problems failed to leave a deep impress on our young men who, bewildered by the swift march of events, seek in the study of Economics the key to the understanding of some of the problems that baffle them. Although Economics has not yet attained the objective, scientific character of natural sciences yet its clear and logical analysis and its growing body of principles have given it a strong claim to scientific standing and to popular confidence. The value of Economics as an instrument of intellectual discipline is no longer

in dispute. A heavy responsibility, therefore, rests on those who frame the course of studies and organise teaching and research in different Universities for ensuring that their endeavours bear fruitful results.

The time has, therefore, come when economists in India should take stock of the progress attained so far and formulate a plan of studies suited to the needs of the times. For I yield to none in my conviction that Indian scholars must take a prominent part in the solution of the diverse problems with which the country is faced from time to time. On Indian scholars must increasingly devolve the task of equipping themselves with the relevant knowledge and technique necessary for pronouncing judgment on rival schemes or policies formulated by the administration. In the transitional stage through which the country is passing a cloistered academic life can hardly be regarded as a suitable ideal. Without participating in the rough and tumble of party politics, a trained economist should be able to "test news and opinions by a mental touchstone of disciplined discernment." As early as 1885 Marshall in his inaugural address at Cambridge made the remark that Economics was more a mode of thinking than a body of doctrines. A well-balanced course in Economics should develop amongst the University alumni a critical outlook, ability to gather facts, sift them and draw necessary conclusions.

If this be the accepted goal of our academic activity, are we satisfied that the prevailing courses of study are best calculated to attain the goal? I have no desire to dogmatise on the subject. But I am sure that many of you will agree with me when I say that the history of the development of Economic Studies in Indian Universities is a record of a three-cornered fight between different and to some extent antagonistic views. There is first of all the traditional idea of imparting useful information which should form part of the liberal education of a citizen taking an intelligent interest in public affairs. Closely allied to this there is the vocational idea of giving instruction in subjects which are likely to contribute to success in the careers that young students may adopt. Lurking surreptitiously behind the whole

curriculum, but at the same time dominating it, there is present what I may call the prize-winning idea of enabling students to capture the rare prizes of enlistment in some of the All-India Public Services.

I regard the last tendency as one of the most injurious influences dominating academic minds. I am not unmindful of the fact that some of our ablest students sit for these competitive examinations. In these circumstances University Boards and Faculties not unnaturally show a partiality to curricula which enable their students to capture the limited openings available. With that end in view an attempt is made to find a place in the course for a little of everything. Economics and Political Science, Political Organisation and Administration, Public Economics and Public Finance, Economic and Political History—these are allotted a place in the hope that a knowledge of something of everything may be of some use to some of our students in the competitive scramble for the highly-paid posts. We thus witness the unedifying spectacle of framing our courses of study for other than strictly academic ends. The situation in India is thus exactly the reverse of that obtaining in Great Britain. There it is the Civil Service Commissioners who adjust their courses for the different examinations to keep them in line with changing University studies. It is of interest to note that in 1937 the Civil Service Commissioners revised their schedule of examinations for posts in the Administrative class of the Home and the Indian Civil Service. This revision in the light of the development that had taken place in University studies was an acknowledgment of the position that the Commissioners have to conform to the requirements imposed by Academic Boards and Faculties.

It also seems to me that we have hitherto laid too great a stress on the process of storing information and attached far too little importance to the training of the mind. While it is true that an Indian University should concern itself with economic problems in their historical and environmental perspective, it is necessary to realise that the course in Economics should not end in a mere study of Indian economic organisation and economic history. A study of descriptive and historical material at the post-graduate or

M.A. stage has hardly the same value as an instrument of intellectual discipline as a course dealing with complex and recondite problems of economic analysis. Students require difficult subject-matter to exercise their faculties and it would, it seems to me, be good for Indian Universities to include in their post-graduate courses of study a far larger proportion than that existing today of subjects that require sustained intellectual effort. I would like therefore to plead for a discriminating emphasis on the need for an intensive study of analytical economics at the post-graduate stage. Theory and descriptive matter should be regarded as factors to be mixed in due "proportions" in the scientific study of Economics, and an undue emphasis on one branch of study to the neglect of the other is likely to lead to paralysis in thought or diminishing returns. It should be the object of a well-planned University course to study the wide sweep of generality and the stage of generalisation is the stage of shedding details in favour of the active application of principles, the details retreating into subconscious habits. Too much emphasis on details leads to mental inertia induced by the weight of aimless accumulation of knowledge, inert and useless. Only a few years ago Lord Stamp, whose death in tragic circumstances we all mourn, emphasised the need for the same degree of disciplined thinking in Economics as in Physics or Chemistry and deprecated the process of storing information. He said[1]: "A mind like a rag-bag may contain an amount of knowledge useful in many spheres of human activity, particularly if the rags are of good quality, but this kind of mind is no good in Economics, where there must be an organic connection between different facts and principles." When Winston Churchill had just come home from the Boer War he visited one of his young relatives at Eton and gave him this useful piece of advice: "Don't turn your mind," he said, "into a—ed ammunition waggon. Turn it into a rifle to fire off other peoples' ammunition." It is not the storing process that is valuable in the study of Economics but the training of the mind. For knowledge shrinks as wisdom grows. The details of

[1] Stamp, *Ideals of a Student*, p. 17.

economic facts and data can be picked up *ad hoc* in each avocation of life, "but the habit of active utilisation of well understood principles is the final possession of wisdom."[2]

It might indeed seem strange to you that at a time when the study and formulation of economic principles and their basic foundations are the subject-matter of severe criticism, I should be advocating the claims of a more systematic study of principles in our Universities. Critics have been telling us that Economics is fast developing into an unintelligent thicket of complex variables and mathematical symbols, and that its exponents live in a make-believe world of unreal and abstract theory. It is urged that the science is trying to develop a whole system of abracadabra which has no meaning except to the initiated, and that it has no use for the plain man and still more the plain politician looking to the economist for help in solving concrete problems.

It is not for me to take upon myself the defence of the great masters of Economic Science who had devoted themselves to the task of acting as path-breakers in this branch of study. They are quite able to look after themselves and their intellectual pursuits. But to us in India the supreme need for a more intensive study of the analytical branch of Economics arises from the eminently practical reason that it will lie with the Indian economists to an increasing extent in the future to influence the policy and the programme of their governments. "The importance even in practice of the theoretical side of science," says Professor Whitehead, "arises from the fact that action must be immediate and take place under circumstances which are exceedingly complicated. If we wait for the necessities of action before we commence to arrange our ideas, in peace we shall have lost our trade and in war we shall have lost the battle." I venture to think that an acquaintance with the recent developments in economic analysis will be useful even for the limited purpose of influencing policy. Tools must be forged before we proceed to make practical use of them. Scientific discovery whether in the field of social or natural science owes its impetus to curiosity, and it is just possible

[2] Whitehead, *The Aims of Education and Other Essays.* p. 58.

that the curiosity which leads a scientific enquirer to explore the realms of the unknown might yield results of great value even though such conclusions seem *prima facie* useless and trivial. It is only necessary to recall what Professor Pigou said in 1926: "With Mill's claim to finality for his theory of value before us as a warning," he remarked, "few economists would venture to assert that the furniture of the tool shop is as yet complete or nearly complete."[3] Let me illustrate my meaning by an example. The literature that has been growing for some years past on the nature of Investment, Income, Saving and Hoarding cannot be regarded as useless quibbling in futile abstractions or mere polishing of dialectical darts. For these concepts have a direct bearing on practical policy. It has very rightly been pointed out by Indian economists that even if the pace of industrialisation were quickened the utmost that India could expect was to raise the proportion of factory workers from a little over 1 p.c. of the working population to 2 p.c. But acceptance of this proposition should not lead one to argue that the value to the Indian economy as a whole of increased industrialisation is to be judged only by this relatively small increase in the number of factory workers. Considerable attention has been given in recent years to the problem of the secondary effect of investment, to the secondary increase in employment due to an increase in investment. It has been established that the activity generated by an initial investment is not an expanding but a convergent series. Owing to leakage into hoards and cash balances the initial movement does not go on expanding until it reaches a crisis, but it settles down on a higher plane of Employment and Income. The discussion that centres round the multiplier concept developed by Kahn and Keynes can hardly be ignored by the Indian economists without laying themselves open to the charge of being out of touch with realities. One of the most important tasks of the Indian economists, specially of those with the necessary equipment in statistics, will be to estimate the value of the multiplier in the light of the

[3] *The Aneurin Memorial Lecture*, 1926.

relevant data available, such as the volume of savings of different groups and the proportion which imported goods bear to the total consumption at different stages of business activity. Several statistical methods have been applied with a view to determining the value of the multiplier for different countries. These have yielded important results, affording, among other things, an insight into the relation between home investment and the loss of home income through expenditure on foreign goods. Kahn calculates that in England 20 p.c. of the income is spent on foreign goods, Dr. Mitnitsky gives for Hungary a proportion of 10 p.c. while a figure of 24 p.c. is given for Australia by Colin Clark.[4]

Far be it from me to suggest that the multiplier concept has found unanimous support. Economists are not wanting who deny the sovereignty of investment as the sole determinant of economic activity. Economic impulses originating elsewhere than in the purchase of capital goods may be as important as investment in determining the level of output. In particular it may so happen that the level of investment itself is determined by the "Relation" which depends on the rate of change of the level of output of consumption goods. Changes initiated by a cotton or wheat boom, for instance, may be the dominant economic impulse determining economic activity and investment. Any decline in the rate of consumption may be the critical point at which the demand for capital goods falls. When the rate of increase of consumption goods begins to fall what is required in net investment is not merely a slowing down in its rate of increase but a decrease. I mention the Multiplier and the Relation only to bring out that these tools cannot any longer be ignored in any consideration of practical policy in India such as industrialisation, increased agricultural production, or changes in the distribution of income and saving brought about by taxation, or inauguration of a programme of public works in India during the post-war period to mitigate the consequences of a decline in the consumption of war goods. The contention that these concepts are useless for the solution

[4] *Review of Economic Studies*, October, 1938, Vol. VI. No. 1, pp. 1-21.

of our every-day practical problems is as fantastic as it is futile.

Other instances of a change in outlook brought about by recent analytical studies will occur readily to you. The concept of full employment, for instance, that dominates much of the discussion on problems of trade cycle has its repercussion on a question of policy which vitally affects India. It is now admitted by most economists that the perennial controversy between free trade and protection has been largely due to the fact that disputants have not met on the same issue. The argument for free trade has been based on the assumption that the resources of the country are fully employed. On that assumption free traders argue that complete freedom of trade is most advantageous and will lead to the most efficient method of production. The protectionist thesis, however, is based on a different assumption. In a community in which there are unemployed resources protection may, in certain conceivable circumstances, increase the quantum of employment. Thus the parties to the controversy have been making unwittingly different assumptions and each maintaining something which is correct on the assumption on which it is based. What is correct policy in the case of equilibrium at full employment may turn out to be a mistaken policy in an equilibrium position of underemployment. At full-employment equilibrium one is concerned with the allocation of the factors in the production of consumption goods and of investment goods which stand in competitive relations to each other. But if the society is at equilibrium at a point of underemployment investment and consumption are not competitive but complementary.[5] That being so the policy of protection may acquire a new significance.

I need not labour the point further. I have said enough to suggest that the time has now come when we should bring our Economics courses in more intimate contact with those profound springs of economic thought which have welled up in such rich measure outside India within the last two decades. Indian scholars should shoulder the responsibility

[5] Hansen, *Full Recovery or Stagnation*, p. 17.

of making economic studies wider and richer in content with every passing year. I do not wish to suggest that we have made no progress in this direction. Any suggestion of that kind would be utterly contrary to facts. Writing in January, 1920, the late Principal Percy Anstey made the following observations before the Indian Economic Conference regarding economic studies in India . . . . "No student," he said, "so far as theory is concerned, ever advances beyond the commonest rudiments. To him the works of Marshall—except for the little volume called the "Economics of Industry"—Pigou, of Irving Fisher, of Clark, of Veblen, of Edgeworth, of Bohm-Bawerk and of all other genuinely original thinkers in the realm of modern economic science who have given us deep and subtle analyses of the complex problems of our time remain sealed books." We have made considerable headway since these lines were written. But what seems to be called for is a definite and conscious recognition of the vital importance of analytical studies in advanced Economics courses.

While thus emphasising the importance of analytical and qualitative thinking as an aid to practical policy, one is apt to neglect the importance of quantitative data and their interpretation in a scheme of higher University education in Economics. It is now becoming increasingly clear to teachers of Economics in India that if the more advanced students are to be properly directed to make contributions to the study of living problems it is essential that they should have some training in statistical technique, a knowledge of which could be usefully employed in the analysis of published statistical material. As raw materials accumulate detailed results must be co-ordinated with the help of recognised apparatus. The importance of realistic study in Economics is now widely recognised, as quantitative data have to be examined by sample investigation or by comprehensive methods of observation. In delivering the Sidney Ball Lecture of 1926-27 at Oxford the late Lord (then Sir Josiah) Stamp deplored the lack of knowledge in young economists of elementary statistical methods. In his opinion it was imperative that every University student of Economics should be required to take a course in elementary statistical methods

including correlation without necessarily obtaining a mastery of mathematical principles. He urged the need of including in the Oxford curriculum some training in published statistical data and in technique. The absence of such a study in any University Economics curriculum might lead one to think that the University in question had no desire to take part in advancing economic science and was content with merely giving a liberal education in past history or modes of thought. "If, however," said Lord Stamp, "we desire to teach a living subject, and to make economists with practical touch, and not mere historians of economic thought—if, indeed, we are to be really fair to the vast mental energies whose direction is entrusted to us, it will be necessary to give some thought to the new era of economic effort ahead of us." It is hardly necessary to add that these observations apply with equal force to the Economics courses offered by most Indian Universities. A knowledge of the first principles of quantitative research is essential to a scientific study of Economics. In the study of analytical Economics the mathematical method is being increasingly applied. But a knowledge of mathematical methods of calculation is no substitute for training in quantitative thinking, for mathematical treatment may be quite misleading if it is not based on a thorough examination of the quantitative nature of the concepts introduced.[6]

We have often heard the complaint that there is a great paucity of statistical material in India, and that economists, politicians and administrators are often handicapped in their work due to such paucity. There is certainly a good deal of force in this contention. For we have as yet no definite information as to the income of the ryot, his family budget and cost of living. In the field of industry the deficiency of material is even greater. There is no reliable survey of cottage industries or medium-size industries for the country as a whole. We have not as yet undertaken a census of production. The index of cost of living is prepared only for a few urban areas. The burden of taxation on different income groups has yet to be estimated. All these imperfec-

[6] Cassel, *On Quantitative Thinking in Economics* (1935), p. 2.

tions constitute no doubt a serious blot on an administration charged with moulding the economic life of millions of submerged human beings. Quantitative analysis in these various fields must necessarily wait upon the gathering of relevant data.

But it is well worth noticing that there are other fields in which there is a lack, not so much of material, as of analysts with the knowledge of the required statistical technique. To a young academic economist, who complained that where he lived and taught material for research was inadequate, the late Professor Allyn Young remarked that a set of census reports contained enough material to occupy the rest of his life. In India one has to look around to be convinced that there is a large mass of accumulating statistical publications which are in the main the by-products of different administrative and economic activities of Central and Provincial governments and local bodies. A rich harvest of useful knowledge awaits the toiler who will address himself patiently to the task of analysing this material as yet unexplored.

The Indian Universities must worthily play their part if indeed they are to help in the education and training of those who are entrusted to their care. India's period of apprenticeship in economic studies should be taken to have been over. Economists should be prepared to take stock of the result achieved so far and in the light of their investigations modify their courses with a view to giving statistical studies their due place in the curriculum, particularly in what is known as the post-graduate or M.A. course. Addressing the Royal Economic Society in 1907, Marshall said, "Qualitative analysis has done the greater part of its work in economic science, and that the higher and more difficult task of quantitative analysis must wait upon the slow growth of thorough realistic studies." I am not quite sure that Marshall, had he been alive today, would have adhered to his former view regarding the finality of qualitative work. But there is hardly any doubt that he would have been a pronounced and staunch advocate of statistical studies in view of the increase of statistical data and the improvement of statistical technique that have taken place since his time.

Armed with this elementary knowledge of statistics it would be open to many of our young post-graduate students to explore unmapped territory, and to fill in many gaps in our knowledge and ordering of facts. In the words of Professor Pigou though for great steps forward the wide sweep of an intellectual giant is needed, for realistic studies there is not only a place but a very real need for the average worker.[7]

But analytical and statistical studies can only be fruitful and yield maximum results, if contact is established between academic economists who combine mastery of the technical tools of theoretical analysis and industrialists, bankers and financiers having knowledge of practical affairs. Too often these two classes of workers move in different worlds, and there is an absence of that co-operation, discussion and friendly contact which is essential in the larger interest of the community as a whole. It is necessary to point out that much of the valuable work in Economics has been done by scholars who have felt attracted by the more realistic approach to the subject and have sought a solution to some specific problem. It was possible for Marshall as early as the seventies of the last century to obtain an insight into industrial problems by visiting representative works in some of the major industries in Great Britain. The result of his investigation was embodied in 1919 in that monumental treatise *Industry and Trade*. The establishment of the School of Business Administration as a part of the London School of Economics by businessman who provided the necessary financial support, and of the Oxford School of Business Research by Lord Nuffield are striking instances of the realisation of the idea of such co-operation between business and academic Economics.

Indeed it may be asserted with confidence that this contact is likely to prove advantageous both to academic economists and to businessmen. The charge of unreality that is sometimes directed against the teaching that is imparted in our colleges and Universities would vanish if the academic economist is in a position to "set up an exchange

[7] Pigou's Presidential Address, Royal Economic Society, May, 1939.

and mart of economic ideas in the City, in business houses and factories"[8] and at the same time bring a little of the realistic atmosphere of the factory, the farm and the counting house into the lecture room. It is interesting to recall in this connection that the late Sir William Ashley prescribed for junior University teachers at Birmingham "a little, definitely limited amount of teaching, plenty of time for research, meetings with all interesting and important folk who came to Birmingham, a summer vacation among the industries of Western Germany"[9]. . . . . It would equally prove advantageous to businessmen to be brought into contact with academic economists who are likely to take a detached view on matters of current controversy. For it is essential to social progress that somewhere in society there should be a small group of men protected and supported by public opinion and inspired by high professional ideals to study dispassionately from the point of view of national interest, economic issues which affect the businessman's pocket. The academic economist should be regarded as the special custodian of that particular point of view in economic matters which is entitled not to undisputed dominance, but to a full hearing even in troubled times when the needs of the hour seem so paramount to the businessman, the legislator, and the policy maker.[10]

In the absence of such co-operation harnessed to the cause of national welfare conflicts are likely to develop, particularly when the views of the academic economists are against the pecuniary and business interest of the class of merchants and manufacturers who may be dominant for the time being. The history of the relationship between the professional economists and businessmen in countries such as the U. K. and the U. S. A. will furnish instances of this clash which has occurred from time to time. The teachings of the economists found high favour with the business

[9] Tyerman, "Economists To-day," *Lloyds Bank Magazine*. June, 1939.

[10] *Economic Journal*, December, 1927, p. 683.

[11] Viner, Presidential Address, *American Economic Review*, March, 1940.

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interests in Great Britain during the first half of the 19th century. The doctrine of *laissez faire*, which then summed up the economic wisdom of the classical economists in the domain of economic legislation, suited very well the dominant business class of the time, the merchants and the manufacturers. When, however, late in the century, on humanitarian grounds, the academic economists advocated state interference in economic activity, their popularity declined as the businessman's profits had a tendency to fall because of such interference. In America too this conflict between the two classes of workers manifested itself in the third quarter of the 19th century in regard to some of the economic issues of the land. The academic economists were known to have advocated governmental regulation of rail-road rates, of public utility industries and the establishment of labour organisations. It was not surprising that the spokesmen of business should, therefore, disparage the academic economists, while professing high regard for the science of Economics as they conceived it to be. When in 1930 a feeling of extreme protectionism swept over the U. S. A. and the Hawley Smoot Tariff Law was passed in the Legislature, a large number of academic economists felt called upon to issue a manifesto against this measure which had caused a shock even in that classic land of Protectionism. Some of the members of the Legislature connected with business declared that they were not overawed or disturbed by this proclamation of College Professors who never earned a dollar by the sweat of their brow, by honest labour—theorists, dreamers.

India should profit from the experience of these countries. Distrust and antagonism are out of place in a sphere of activity in which both businessmen and academic economists have their own contributions to make in furtherance of common welfare. I, therefore, take this opportunity of making an earnest appeal for the establishment of a definite contact between the professional economists and the world of trade, industry and commerce which may serve as a basis for future co-operation and understanding. Speaking as I do in Bombay whose citizens have acted as pioneers in diverse spheres of economic activity, I realise I could not

have selected a more suitable place for this appeal. Facilities to the teachers and scholars for the first-hand study of specific economic problems, supply of data not always available in official publications, opportunities for discussion of problems of national policy, particularly of measures on which Indian public opinion is divided—these are some of the desiderata for realistic investigation on dispassionate lines. It is here that the businessman can lend a helping hand to the economist. As Professor Vakil pointed out in his Presidential Address at Patna, "There is a natural process of action and reaction between the strictly academic workers and the non-academic workers in the matter of investigation and research in economic problems which results in a constant criticism of one another's point of view ultimately resulting in the establishment of truth." There stand the mighty problems of reconstruction to the solution of which we must direct our efforts. We have before us the stupendous task of giving to the tiller of the soil the access to his inheritance of which he has hitherto been deprived. Industry and Commerce too require for their conservation and ordered expansion in these days a social policy. Gone are the days when an undertaking could be judged solely in terms of the balance sheet and profit and loss. There is a growing impatience with an economic policy which can suggest no better way of making profit than the destruction of standing crops in the field or the restriction of production and the imposition of quantitative restrictions on foreign trade. The leaders of industry and commerce must make their own contribution to the solution of the larger social problems, for their ripe experience, sober judgment and cautious temperament give them a right to be heard.[11] A project of constructive work on these various lines cannot be undertaken by any one set of workers however able and well-intentioned.

It requires for its fulfilment the active association of the academician with the businessman and the inauguration of what is known as Institutional research. The task of conducting research on economic problems has been so long

[12] Nicholson, *Education and Modern Needs*. p. 157.

left in India mainly to the Universities which, with the limited resources at their disposal, have worthily played their part. The publications of the Economics and Commerce. Departments and the development of various lines of investigation in different academic centres in India bear eloquent testimony to what the Universities have done in this line. But let us not forget that useful and constructive work is done in Europe and America by research departments maintained by trade associations, large individual firms, trade union groups and a number of philanthropic foundations. The Agricultural Economics Researsh Institute at Oxford, the Fabian Research Bureau, the Institute of International Affairs are only a few among numerous other institutions in Great Britain where teamwork is being done by a band of workers. The year 1938 saw the inauguration of the National Institute of Economic and Social Research, liberally supported by grants from the Sir Halley Stewart Trust, the Trustees of the late Viscount Leverhulme, the Pilgrim Trust and the Rockefeller Foundation. A statement issued by the Organising Committee called attention to the inadequacy of the facilities for research in Social Sciences compared with those available in the sphere of natural science and of the great increase in the number of students of Economics in different British Universities and the consequential difficulties of giving to University teachers both adequate leisure and reasonable facilities for research. The problems of the overcrowded class-room and inadequate facilities, are admittedly more acute in India than elsewhere. The time has, therefore, come when Indian public opinion should be mobilised in support of a policy of promoting group research in institutions where the world of business is brought into direct contact with professional economists.

Each of the major provinces in British India should take upon itself the task of establishing a Provincial Institute of Economic Research. It should be a fact-finding Institute which should take up for investigation under expert guidance aided by a team of whole-time workers questions of national and provincial importance. Such an Institute should be free from official control and be in a position to

issue reports as free from bias—political or economic—as are the reports of scientific bodies. Too often in governmental circles in this country there is a tendency to adopt what has aptly been described as the "hired man" conception of the duties of the academic economist. When the views of the professional economist are in accord with those of the powers that be, they are trotted out as dispassionate, scientific and detached. When, however, support is wanting from Indian economists for any governmental policy, official apologists lose no time in disparaging such views as being swayed by pre-conceived political bias. Any suspicion of control by government or any vested interest over the Institute would militate against its proper functioning, for it is calculated to raise doubts regarding the intellectual integrity of the data collected. The Institute should be liberally endowed and receive aid from public funds and be under the control of a governing body composed of businessmen, academic economists and important elements in the public life of the country. I can visualise such a body issuing reports and monographs as authoritative and impersonal as are the documents issued from Chatham House. In recent years provincial Governments have felt called upon to appoint a number of *ad hoc* Committees for reporting upon different aspects of economic life. Industrial and banking legislation, rural debt and money-lending, marketing of products of cottage industries, unemployment, fixing minimum prices for jute, sugarcane, paddy and rice—these and a host of other problems have come up for review by a number of Committees. I mean no disparagement to the members of those bodies when I say that they would have found the services of these Provincial Institutes helpful.

The task of setting up an independent body along lines which I have ventured to indicate is beset with difficulties. It will require ceaseless and persistent efforts combined with sincerity of purpose. But it is a task well worth attempting, for the path of wisdom in these anxious days is to examine all problems in a wider perspective than that available to any one group of workers acting singly.

Whatever may be the form of government in this country in the near future, public control of trade, industry and finance is likely to increase. It seems certain that through their taxing and spending policy governments all the world over will regulate the allocation of an increasing proportion of the community's resources. For we live in an age in which the basic institutions of the capitalistic society, which seemed solid and enduring, are being steadily and relentlessly modified because of public control. A dispassionate study of the forces at work is the sincerest form of the recognition of the important truth that economic events are largely influenced by arguments and intellectual ideas. The need for a broad vision and clear outlook was never so imperative as at the present moment.

DISCUSSION ON PAPERS*

RURAL CO-OPERATION IN INDIA

During the discussion on rural co-operation, at the invitation of the President, Mr. R. G. Saraiya, Chairman of the Bombay Provincial Co-operative Bank Ltd., offered remarks to the following effect:—

He thanked the members of the Indian Economic Association for taking up for discussion the subject of rural co-operation in which the country was vitally interested.

The defects of the co-operative movement were fully discussed by the economists, he said. The movement was taken as a patient, the symptoms of whose disease were adequately studied and discussed by the doctors of economics. What he wanted was the prescription of cures, especially as many remedies were suggested some of which were incompatible with one another.

Sir Manilal had discussed fully the necessity of treating the individual farmer and his activities as a whole, and not merely as a borrower. While agreeing fully with Sir Manilal, Mr. R. G. Saraiya suggested that the failure of the co-operative movement or its success did not only depend upon the individual farmer or the marketing of his produce in the narrow sense. He wanted the economists to consider the background or the environment—economic, social and political—in which the farmer had to work. Questions of literacy, of the broader policy of production and marketing of crops also entered the picture and he wanted the economists' advice on this broader question. For example, collective farming was suggested as a remedy. Advice as to the proper crop to be sown, the quantity and quality to be sown, the supply of adequate seed for this purpose etc., was

* This section is not so complete this year as it used to be in previous years. We have received summary of one speech only on Rural Co-operation in India and no summaries of speeches on Development of Economic Thought in India and Finance of Local Bodies. We are publishing what we have received—the summary of the speech on Rural Co-operation and of speeches on Post-War Reconstruction.—M. Ed.

also required. It was an open question whether co-operation alone could convert the deficit economy of the farmer into a surplus economy unless the whole environment was altered.

One practical remedy suggested was that by Mr. M. I. Qurishi. His remedy was not co-operative but State banks. The farmer would be unwilling to borrow from the State banks at present as it would involve considerable official interference. But the advice of the economists on this point would be valuable.

Another remedy which was suggested was Mr. Subedar's scheme of land mortgage banks through guarantors. The question of the price which the money-lender would exact from the farmer before guaranteeing the loans to him from the land mortgage banks should be considered as also whether the whole country could be covered by such guarantees. It was necessary to consider this remedy in detail in all its aspects before accepting or rejecting it.

Mr. Saraiya also referred to the diversity of opinions regarding the multi-purpose society. He also wanted further investigation into the question of the linking of credit with marketing and supply. The normal marketing machinery in some areas functioned so well that it might not be worth while interfering. At other places this remedy might be useful.

The question of supervision was discussed but what he felt was that the cost of supervision on co-operative societies was too high as they had to bear the whole or part of the cost of (a) supervising, (b) Government audit, (c) supervision by the financing Agency, and (d) guidance from Co-operative Institute, etc.

In conclusion, Mr. Saraiya stated that he did not expect the economists to have ready made answers for all these and other questions. But there was considerable scope for research and if the learned Professors of economics were to encourage students to study village conditions at first hand, and then utilise the wealth of co-operative data available in co-operative societies, banks, etc., considerably useful results would be available. He was prepared to assist such students by placing at their disposal such material as would be available in the Bombay Provincial Co-operative Bank etc.

DISCUSSION ON CURRENT TOPIC

Economic Reconstruction after War

1. Professor D. G. Karve opened the discussion with a lucid account of the issues involved.

Sir Jehangir Coyajee said,

"We shall not be far wrong in assuming that, at the end of the present war, the economic condition of the world will be similar to that which was witnessed at the end of World War I—only the same diseases will be greatly aggravated. With general confusion in currencies, with restrictions heaped on International trade and with abrupt changes of economic policy, facing us on all hands, we shall have to study, first and foremost, *flexibility* of economic policy. Of such a policy the two main pivots will be the strengthening of our key industries and the preparation of a skilled labour force. For the rest, the lines of reconstruction must depend on whether India is following a policy of her own or is co-operating in an Empire policy. Each of these courses has its own advantages and drawbacks. If we form part of such an economic block we shall have access to ample supplies of capital and skilled labour and ample markets; but we shall have to restrict our ambitions in some directions. If on the other hand India follows her own line, the advance will be much slower and much more costly, but the ultimate development might be more ample."

Prof. S. G. Beri during the course of his discussion on Post-War Economic Reconstruction in India welcomed the step taken by the Government of India in setting up the Post-War Reconstruction Committee. It would be remembered that no such step was taken at the end of the last war with the result that several of the industries collapsed after the war owing to lack of State support. There was also acute unemployment for which there were no remedial measures

taken. Prof. Beri referred to the urgent need of devising suitable measures in regard to post-war reconstruction in view of the unsettlement of the agricultural economy of the country and the vulnerability of India to changes in the international price level. He put in a plea for the enlargement of the scope of the Committee's work which should not merely aim at handing over the relay stick of war production to peace-time economy, but also consider long-range and permanent needs of India. He suggested that steps should be taken in the way of a suitable monetary policy for insulating India against post-war economic depression and creation of a reconstruction finance fund. Businessmen should also avoid the mistake made by them during the last war when they dissipated their resources in giving high dividends and were caught napping when the inevitable post-war depression overtook them. They should, therefore, carefully husband their resources in war-time profits with a view to fortifying the industry against the lean years in the post-war period.

Prof. P. S. Narayan Prasad, of the Maharaja's College, Jaipur, referring to the possibility of a post-war depression, said that while it is likely to come, its character may be different from that which occurred after the last war because our knowledge of the nature and causation of the trade cycle and of its control is now wider; but more so because we have become depression-conscious and our expectations will have an immense influence on its nature. He referred to the plans which the consumers, producers, bankers and statesmen have in view to meet the contingency of a depression and these may exercise a steadying influence.

The social controls introduced during the war, he envisaged, may be continued partly because we are all planners now but also because economic history seems to point out that after every war the residue of control tended to persist—sometimes perhaps with greater vigour as in post-war Germany.

To him the scope for an economy of self-sufficiency seemed small and also injudicious and public opinion should be made to appreciate the need for and the desirability of an

economy partnership with nations having a community of ideals. The Consultative Committee, he believed, would be useful only if it works on the basis of accurate facts and analysis; and co-ordination of economic research carried out in the various Universities seems to be a crying necessity and it must replace the chaotic and unplanned research as at present carried out and in this work the Association could be of great use.

Prof. M. C. Munshi believed that there had been too much of loose talk about 'Planning.' While it was true that Soviet Russia's greatest contribution to contemporary economic thought was "*Planning*," elsewhere there had been so much of "*Panic-planning*." He thought that a great deal of this could be more truthfully described as Rationalization, on a vast scale, of self-adjusting, self-equilibrating capitalism. He, therefore, pointed out that it should be the business of the Economists to help in determining the *objective* of planning—an objective which must be clearly visualized and formulated. In this connection he deplored that while even the ancient Pharaoh assigned to Jacob a chariot next to his own, to-day the economist was used mostly like a fire-engine. He then asserted that unless the objective was thus formulated, there would be the repetition of the mad zeal displayed after 1919 to revert to the "pre-war" conditions—especially in regard to the liberation of the "profit motive." It needed an emphasis that though for some time after 1919, Europe was cheered up by the advent of the League of Nations, the former hastily improvised economic rationalism when the mist created by the latter was cleared up and lifted. All these lessons had, therefore, to be kept in mind when the demobilization of the over-expanded industries would have to be undertaken. Finally it was imperative that a co-ordination between the shortly reviving small-scale industries and the large-scale (organised) ones, should then be attempted in order successfully to tackle such problems as marketing and technical improvement, finance and decentralization.

Dr. Gyanchand said,

"The beneficial effect of war on the Indian economy has been greatly exaggerated in the course of the discussion to-day. Though industrial expansion has taken place to a certain extent as a result of the war effort, the loss of export markets has had a most depressing effect on our agriculture; and on the balance we have lost much more than we have gained.

The post-war problems of reconstruction in India will be more long-term than short-term problems and in India, as elswhere, measures of control set up during the war will have to be maintained and even further strengthened. If the war ends in the defeat of reactionary forces everywhere, durable peace will only be ensured on the basis of a co-operative economy in the world. In that India will have to find a place as a self-governing unit. The dominant fact of the Indian economic life is and will remain the derelict condition of Indian agriculture and will limit the scope for industrialization in this country. We will not be able to get a big move on without dealing with the whole problem as an integral whole and solving it in the light of well-conceived social purpose. We have not found it yet and its discovery is nowhere in sight. Purpose combined with power will take it a long way but the prospect of our being able to attain this combination is rather remote and the outlook is, therefore, distinctly gloomy."

Prof. Bhatt said that the post-war reconstruction of India should be a part of the problem of world-reconstruction, hence it cannot be treated in isolation, nor can it be confused with the general problems of economic planning of the country's resources.

Although we cannot say what kind of world will emerge out of this war, certain economic problems will need immediate solution in practically every country. Apart from the actual destruction of industries and resources, a painful transition from a war-economy to a peace-time economy will result in economic depression. Under the reconstruction-phase of the post-war period, distribution and

availability of capital goods industries—which would have suffered physical destruction as well as enormous depreciation—will determine the competitive power of a country in the world markets. Indian industries will have to face a double disadvantage, *viz.*, absence of capital goods industries in the country, and limited scope for our exports to the impoverished and state-controlled markets of the world.

Hence, if the post-war adjustment of the world-economy is left to the blind forces of economic nationalism and uncontrolled private enterprise, a scramble for industrial supremacy will follow soon. In the long run, this will give rise to a top-heavy industrial structure. The consequent trade depression will be far more severe than that of the thirtees. Its impact on Indian agriculture and industries will be ruinous. Hence, to solve the first problem, we must chalk out a proper tariff and trade-agreements policy. To solve the second problem, a policy of creating an industrial and agricultural reserve should be followed *now* when we are experiencing boon conditions.

Rev. James Kellock said,

The post-war problem in India will not be one of reconstructing a disorganized and half-ruined system, but one of conserving the gains made during the war and carrying these gains forward to permanent and increased advantage. The war conditions and developments are helping India forward in the direction she wants to take. They are bringing about greater industrialization, expansion of the market for Indian manufactures both in India itself and overseas, increase in the supply of skilled and semi-skilled labour, diminution (probably) of the pressure of the population on the land, and repatriation of the sterling debt.

India's problem after the war will therefore be,—How to maintain the demand for her industrial products, how to prevent the expanded markets for her manufactures at home and abroad from contracting again, how to keep up the need for trained labour, how to conserve and develop the alternative avenues of employment that have been opened up, and how to bring the exchange policy into harmony with the

move away from the former position of being a predominantly debtor-country towards the position of a debtless or creditor-country?

I do not think that we need necessarily assume, as Sir Jehangir Coyajee did in his remarks, that the chaotic condition of currencies, exchange and trade which followed on the heels of the last war will be repeated after this one. There are clear signs that Governments have learned valuable lessons from the former experience. Britain's present financial methods, *e.g.*, show a great improvement on the way things were managed in 1914—18. Serious inflation has up till now been avoided. Sucessful efforts are being made to finance the war from taxation and real savings and not from freshly created bank-money. It is clearly realized that the fundamental factor in war-finance is the transferance of purchasing power from unessential civil consumption to the consumption involved in the war effort. This is being accomplished by a comprehensive rationing system, severe taxation and the widespread encouragement of savings. All this combined with the raising of the loans at a 3% rate of interest is keeping things within manageable limits.

One form that the post-war problem will take will be:—What to do with the controls that have been established? Many will probably say, Drop them and get back to untrammelled producing, trading and consuming as quickly as possible. Others will say, Keep them in operation for a time to ease the transition. Still others, and my own opinion would be with them, will say, Let the war-time controls merge into and become the nucleous of a system of planning for the rapid advance of India on the path of economic improvement. Let there be a Brains' Trust whose function it will be to shape and direct the economic life of the nation in the interests of the people in general. Let its planning have that elasticity the need for which Sir Jehangir Coyajee pointed out. Do not let the Brains' Trust be too entirely "business-man" in its composition, or too "short-period" in its outlook. Without being over-awed by economic theory, let it treat it with respect. Economists cannot at the mere blast of the trumpet abandon the truth underlying the theory that the free-market equilibrium = the economic optimum. Let the

Brain Trust consider in the concrete circumstances of the particular cases whether that free-market equilibrium will give the best results or whether there should be intervention for the collective good. Let the lesson of the last post-war period be remembered when the scramble of the tariff-embattled nations to avoid an adverse balance of trade led to the disastrous breakdown of international trading.

The question of the place of exchange control in the post-war world will arise. At present it is being used to conserve our foreign purchasing power and to make selection among imports so as to bring in such as are favourable to the war effort. In considering the retention of this control after the war, the purpose for which it would be retained in peace time would have to be clearly defined. It might, *e.g.*, be retained in order to select imports with a view to full employment. Or it might, in association with trade agreements, be used in place of a general tariff system. In this connection the old fundamental controversy between the relative advantages of freedom and control is likely to arise. The economists of India should study the matter closely and throw all the theoretical light they can upon it. It is good that the subject of Economic Controls in India during the War is one of the subjects chosen for discussion at the next meeting of the Economic Conference.

I do not think that India will be in a position to adopt a full-blooded socialism after the war, but I hope that she will be able to go the length of having a more conscious direction of her economic life with a view to conserving the gains of the war developments. I hope it will be possible to have the economic destinies of India moulded by a body of men who will combine trained economic intelligence and practical wisdom with the vigorous resolve to achieve India's economic salvation.

Dr. V. K. R. V. Rao drew particular attention to the necessity for taking into account both long-period and short-period considerations in the planning of post-war reconstruction. The short-period problem was one of finding employment for demobilised labour and meeting the sudden changes which will take place in the demand and supply of imports

and exports consequent on the withdrawal of war-time restrictions. The long-period problem of course was one of strengthening the industrial structure of the country and increasing its productive capacity. Dr. Rao saw no reason why both these objectives should not be combined; thus, for example, if demobilised labour could be given employment on works that would increase the productive equipment of the nation, it would serve both the purposes. He also suggested that it would not be wise to remove all war-time controls immediately on the conclusion of peace and that relaxation of restrictions should be gradual so that no great shock need be administered to the economic system.

Prof. C. N. Vakil replied to the various references made during the discussion to the Consultative Committee of Economists. He pointed out that the Committee as its name indicated had only advisory functions. It had only met once so far and had a general discussion of the problems that were likely to arrive after the war. Sub-committees were now working to fix up the detailed programme of work. He hoped that the Committee would be able to suggest concrete measures for the economic reconstruction of the country; and pointed out that though this did not have executive powers, the fact that for the first time in our history a group of Indian Economists from all over the country had been brought together and entrusted with this task was a step in the right direction. He thought that economists would in future have more opportunities to shape the economic policy of the country. Prof. Vavil also explained that there was no suggestion made during the discussion which had not already been thought of by the Committee, and that the members of the Conference might be assured that their views would be fully represented by the Committee.

THE INDIAN ECONOMIC ASSOCIATION

REPORT FOR THE YEAR ENDING 31ST MAY, 1941

The number of members on 31st May, 1941, was 175 as compared with 163 in 1940.

The financial position of the Association continues to show steady improvement; from Rs. 5,298-1-3 on the 31st May, 1940, the cash balance increased to Rs. 5,560-11-10 on 31st May, 1941. Besides, in accordance with the agreement regarding the Journal, the reserve fund is jointly held by the Association and the Allahabad University. All the amount collected by way of subscription from members is spent on printing the Journal. Hence, the income for the year is not very high. The thanks of the Association are due to Mr. B. Bhaktavatsalu, B.A., G.D.A., R.A., our Honorary Auditor, for auditing the accounts of the year.

Invitations were sent to all the Directors of Public Instruction, Heads of the Affiliated Colleges and the various departments of the Government with a request that facilities should be given to the teachers of Economics to attend the Conference. The Committees appointed at the last General Body Meeting have submitted their reports and these will be placed before the General Body Meeting at Bombay.

I am greatly indebted to the President and Members of the Executive Committee for their help and co-operation. My task has been made easy by the sympathetic consideration I have received from the members of the Association and the Managing Editor of the *Indian Journal of Economics.*

15th December, 1941. B. V. NARAYANASWAMY,
Annamalai University. *Honorary Secretary.*
Annamalainagar.

THE INDIAN ECONOMIC ASSOCIATION

Receipts and Payments Account for the year ending 31st May, 1941

RECEIPTS

	Rs. a. p.	Rs. a. p.
To Opening balance:		
(a) Fixed deposit with M.P.C. Bank Ltd., Madras	2,050 0 0	
(b) Fixed deposit with B.P.C. Bank Ltd., Bombay	1,193 5 0	
(c) Prudential deposit with M.P.C. Bank Ltd, Madras ...	1,578 12 6	
(d) Current account with M.P.C. Bank Ltd., Madras ...	362 6 0	
(e) Cash with the Honorary Secretary	113 9 9	
	5,298 1 3	
Less amount paid to the Department of Economics, Allahabad University	636 2 5	4,661 14 10
Interest receipts on:		
Fixed deposits	77 4 0	
Other accounts	39 12 0	117 0 0
Subscription from Members:		
175 members at Rs. 12/- ..	2,100 0 0	
Less received in advance last year	12 0 0	2,088 0 0
Advance subscriptions from 2 members	24 0 0	
Subscription for previous year 1939-40	24 0 0	
Subscription from Associates ...	18 0 0	66 0 0
Miscellaneous:		
Authors' contribution, etc. ...	205 8 0	
Sale of I.E.A. reports	12 0 0	
Share of profit 1939-40 ...	109 2 6	326 10 6
Total Rs.		7,259 9 4

PAYMENTS

	Rs. a. p.	Rs. a. p.
By Department of Economics, University of Allahabad: for 125 members at Rs. 9/- each and 50 members at Rs. 8/- each ...	1,525 0 0	
2 back members at Rs. 9/- ..	18 0 0	
Cost of conference number (including postage Rs. 120-12-6) ...	1,300 3 3	
Other bills of the University ..	3 6 3	2,846 9 6
Last year's dues balance ..	186 15 10	
Less credit note	30 0 0	156 15 10
		3,003 9 4
Less amount due to the University ..		1,430 6 10
		1,573 2 6
Postage	67 4 6	
Bank charges	6 4 0	
Typing charges	35 0 0	
Miscellaneous	17 2 6	125 11 0
		1,698 13 6
Closing balance:		
(a) Fixed deposit with Madras Provincial Co-operative Bank Ltd., Madras	2,106 3 0	
(b) Fixed deposit with Bombay Provincial Co-operative Bank Ltd., Bombay	1,214 2 0	
(c) Prudential deposit with Madras Provincial Co-operative Bank Ltd, Madras ...	1,618 8 6	
(d) Current account with Madras Provincial Co-operative Bank Ltd., Madras	448 7 1	
(e) Cash with the Honorary Secretary	173 7 3	5,560 11 10
Total Rs.		7,259 9 4

INDIAN ECONOMIC ASSOCIATION

TWENTY-FIFTH SESSION

(SILVER JUBILEE SESSION)

January 1942

The annual General Body Meeting of the Indian Economic Association was held in the Senate Hall, Bombay University, Bombay, on 2nd January, 1942, at 10 A.M. Thirty-six members were present.

1. The Minutes of the General Body Meeting held at Mysore were confirmed.

2. The Report of the Honorary Secretary and Treasurer and the Audited Statement of Accounts for the year ending 31st May, 1941, were considered and approved.

3. The invitation of the Madras University for holding the Twenty-sixth Conference at Madras was accepted.

4. The following subjects were selected for discussion at the next conference:—

(*i*) Economic Controls in India during the War,

(*ii*) Regulation of Banking in India,

(*iii*) Recent Structural changes in the Capitalistic Economy,

(*iv*) Current topic.

5. The following office-bearers were elected for the year 1941-42.

President:

Dr. B. V. Narayanaswami Naidu, M.A., B.Com., Ph.D., Bar-at-Law, University Professor of Economics, Annamalai University.

Honorary Secretary and Treasurer:

Dr. V. K. R. V. Rao, M.A., Ph.D., Principal, and Professor of Economics, S. L. D. Arts College, Ahmedabad.

Honorary Local Secretary:

University Professor of Economics, Madras University.

Members of the Executive Committee:

1. Prof. J. P. Niyogi, M.A., Ph.D.
2. Prof. Gyanchand, M.A., Ph.D.
3. Prof. H. L. Dey, M.A., D.Sc.
4. Prof. V. G. Kale, M.A.,
5. Prof. S. K. Rudra, M.A.
6. Prof. L. C. Jain, M.A., D.Sc.
7. Prof. A. I. Quereshi, M.A., Ph.D.
8. Prof. V. L. D'Souza, M.A., B.Com.
9. Prof. C. N. Vakil, M.Sc.
10. Dr. Lokanathan, M.A.
11. Dr. B. K. Madan, M.A., Ph.D.
12. Prof. S. Beri, M.A.

6. Messrs S. S. Engineer & Co. were elected Honorary Auditors of the Association. The Secretary was asked to send a letter of thanks to Mr. Bhaktavatsalu, B.A., G.D.A., R.A.

7. The following were elected representatives of the Association on the Editorial Board of the Journal:—

1. Prof. V. G. Kale.
2. Dr. Lokanathan.
3. Prof. A. I. Quereshi.
4. Prof. D. Ghosh.

8. (a) It was decided that members who wished to submit papers for being read at the next Conference should send them on or before 10th October, 1942, to the President. The President will intimate to the authors of the papers whether the papers have been accepted or not. No paper shall, in any event, be accepted after 10th October, 1942.

(b) That in future papers intended for the Conference be accompanied by summaries not exceeding two pages in print of the Journal.

(c) The summaries will be printed by the Local Reception Committee.

(d) That summaries should be sent to the members by the Reception Committee by 1st December, 1942.

(e) That the Conference Number be continued to be printed on a sliding scale arrangement to be so determined by the Committee as to cover total cost of printing from the contributors.

(f) If possible, the Conference Number should be published before the 20th December.

(g) That Prof. Kale be authorised to negotiate on behalf of the Association with the Journal office on the basis of the above arrangements.

9. The dates for the next Conference should be fixed by the Secretary in consultation with the Local Secretary.

10. The meeting terminated with a vote of thanks to the President and Bombay University, proposed by Prof. Gyanchand and seconded by Dr. L. C. Jain and Dr. A. I. Quereshi.

B. V. Narayanaswamy, *Secretary.* — J. P. Niyogi, *President.*

REVIEWS OF BOOKS

Souvenir of the Silver Jubilee Session of the Indian Economic Conference.

The Indian Economic Association held its Silver Jubilee Session at Bombay this year under the presidentship of Dr. J. P. Niyogi of Calcutta University. Sir Purshottamdas Thakurdas, Kt., inaugurated the session. This souvenir is intended to perpetuate the memory of that Jubilee Session.

The artistic silvery covers which enclose this publication are highly suggestive and hardly leave any room for doubt about the nature of its contents. Its attractiveness arrests our attention and tempts us to go through its pages which contain a brief record of the excellent work done by the Association within the brief span of its twenty-five years' life. The services and pictures of a number of our prominent economists, whose selfless efforts have helped to build up this powerful organisation in the country, have been conspicuously displayed.

Fortunately, this year witnessed also the celebration of the centenary of our great departed leader, the late Justice Mahadev Govind Ranade, whose pioneer services in the field of Indian economic studies eminently deserved recognition at our hands. The Souvenir rightly includes a brief note on his life and economic works from the pen of the illustrious Indian Economist—Professor V. G. Kale. The great savant's photo has justly been given precedence over all others in this Souvenir. The photos of a brilliant galaxy of other non-academic workers also in the field of Indian Economics—of Dadabhai Naoroji, Ramesh Chandra Dutt, Gopal Krishna Gokhale, Sir Purshottamdas Thakurdas, Mr. R. P. Masani, the Chairman of the Reception Committee, and Mr. C. B. Mehta and Mr. R. G. Saraiya whose generosity made the session a success—adorn its pages.

The President of each Conference has his photograph given along with a brief sketch of his main contributions to Economics and his services to the Association and its Confer-

ences. In this Presidential gallery are also included the Presidents of the two sessions of the Political Science Conference which were held jointly with the Economic Conference. Some General Secretaries of the Economic Association, the office-bearers of the Reception Committee and the General Secretary of the Political Science Association have also been assigned a well-deserved place. Pictures of some local institutions of economic interest such as the University School of Economics, the Reserve Bank of India, the Stock Exchange and the Cotton Exchange of Bombay have also been given."

A laudable effort has been made to trace the progress of the economic education in the country during these twenty-five years. The data are unfortunately incomplete but a promise to complete them is made and is highly welcome.

The munificence of Sir Purshottamdas Thakurdas, Kt., which made it possible to publish this Souvenir is to be commended. We hope it will be an example to other big business magnates to come forward with equally generous help for such enterprises.

The short history of the Conference by Dr. J. C. Sinha, a note on the history of the Indian Economic Journal by Professor G. D. Karwal, Dr. Naidu's note on the growth of the Indian Economic Association and Principal Gurmukh Nehal Singh's account of the growth of the Political Science Association are exceedingly illuminatory, interesting and valuable.

Professor C. N. Vakil, the Local Secretary and his associates—Professors Anjaria, Pardasani and Pinto deserve warmest congratulations on bringing out so valuable and attractive a souvenir. The paper, printing, get-up and illustrations unmistakably reveal their artistic genius and leave nothing more to be desired.

S. P.